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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 26 JULY 2016 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 the meeting to note that this meeting will be webcast for live and subsequent broadcast via the Council's Internet site (www.birminghamnewsroom.com) and that members of the press/public may record and take photographs. The whole of the meeting will be filmed except where there are confidential or exempt items.

2 **APOLOGIES**

To receive any apologies.

3 - 8 3 **MINUTES - AUDIT COMMITTEE**

To confirm and sign the Minutes of the last meeting held on 21 June 2016.

9 - 14 4 **WHISTLEBLOWING & SERIOUS MISCONDUCT POLICY**

Report of the Monitoring Officer, Legal Services.

15 - 24 5 **ANNUAL FRAUD REPORT 2015/16**

Report of Acting Assistant Director, Audit & Risk Management

25 - 64 6 **CORPORATE RISK REGISTER UPDATE**

Report of Acting Assistant Director, Audit & Risk Maangement

65 - 268 7 **STATEMENT OF ACCOUNTS 2015/16**

Report of the Assistant Director - Financial Services

269 - 286 8 **GRANT THORNTON - PROGRESS REPORT**

Report of the External Auditor

287 - 296 9 **CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS**

Report of the Strategic Director - Finance & Legal

10 **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.

11 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
21 JUNE 2016

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 21 JUNE 2016 AT 1400 HOURS IN COMMITTEE ROOMS 3 AND 4, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Chatfield in the Chair;

Councillors Burden, M Jenkins, Robinson, Shah, Spencer and Tilsley.

****

NOTICE OF RECORDING/WEBCAST

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

APOLOGIES

885 Apologies were submitted on behalf of Councillor Bore.

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

APPOINTMENT OF COMMITTEE , CHAIR, DEPUTY CHAIR AND MEMBERS

886 **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 2017 be noted:-

Labour Group

Councillors Bore, Burden, Chatfield (Chair), Shah and Spencer.

Conservative Group

Councillors M Jenkins and Robinson

Liberal Democrat Group

Councillor Tilsley.

(ii) that Councillor Burden be elected Deputy Chair, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2017.

FUNCTIONS

The following schedule was submitted:-

(See document No 1)

887 **RESOLVED:-**

That the schedule of functions be noted.

DECLARATIONS OF INTEREST

888 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.

MINUTES

In response to a question by a Member, Craig Price, Acting Assistant Director, Audit and Risk Management, advised that Councillor Ian Ward, Deputy Leader, had been invited to attend the meeting scheduled to take place on 12 September 2016 (Minute No 866 refers).

889 **RESOLVED**:-

That the public part of the Minutes of the last meeting be noted.

BIRMINGHAM EDUCATION PARTNERSHIP RISK

John Sidebottom, Education Programme Manager, tabled the following document, highlighted the salient points and responded to Members' comments:-

(See document No 2)

890 **RESOLVED**:-

That the document be noted.

BIRMINGHAM AUDIT – SCHOOLS VISIT PROGRAMME

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

(See document No 3)

Don Price, Group Auditor, and Karen Smith, Principal Auditor, introduced the report and responded to Members' comments.

The Chairman requested that a progress report be submitted in 12 months' time.

891 **RESOLVED**:-

That the report be noted.

BIRMINGHAM AUDIT – ANNUAL REPORT 2015/16

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

(See document No 4)

Craig Price, Acting Assistant Director, Audit and Risk Management, introduced the report and responded to Members' comments.

He undertook to provide information regarding:-

(i) the timescale for eradicating the backlog of assessments relating to the deprivation of liberty standards referred to in paragraph 14.1 of Appendix A of the report;

(ii) the recovery of salary overpayments referred to in paragraph 14.4.3 of Appendix A of the report.

892 **RESOLVED**:-

(i) That the report be noted and the annual assurance opinion for 2015/16 referred to in paragraph 4.5 be accepted; further that reasonable assurance is reported;

(ii) that approval be given to the internal audit charter as set out in the report now submitted;

(iii) that approval be given to the annual internal audit plan as set out in the report now submitted.

ANNUAL REVIEW OF THE EFFECTIVENESS OF THE SYSTEMS OF INTERNAL AUDIT

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

(See document No 5)

Craig Price, Acting Assistant Director, Audit and Risk Management, and Phil Jones, Grant Thornton, introduced the report and responded to Members' comments.

893 **RESOLVED**:-

That the report be noted.

2015/16 ANNUAL GOVERNANCE STATEMENT

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

(See document No 6)

Sarah Dunlavey, Assistant Director, Financial Services, introduced the report and, together with Craig Price, Acting Assistant Director, Audit and Risk Management, and Phil Jones, Grant Thornton, responded to Members' comments.

A Member suggested that the table set out in paragraph 6.1 of the Annual Governance Statement should include a heading for each governance issue and that there should be specific reference to budget monitoring.

894 **RESOLVED**:-

(i) That the Annual Governance Statement, which will be included in the 2015/16 Statement of Accounts, be approved;

(ii) that it be noted that the arrangements for the management of the items set out in Section 6 of the Annual Governance Statement are due to be reported to the Audit Committee in November 2016 and March 2017.

GRANT THORNTON – PROGRESS REPORT

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

(See document No 7)

A member commented on the report and Phil Jones, Grant Thornton, responded thereto.

895 **RESOLVED**:-

That the report be noted.

DATES AND TIME OF MEETING

Councillor Spencer pointed out that a meeting of the Hall Green District Committee, on which she and Councillor Burden served, was also scheduled to take place on 28 March 2017 at 1400 hours. She requested and the Chairman agreed to consult Members regarding holding the Audit Committee on a different date.

896 **RESOLVED**:-

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

2016	**2017**
26 July	31 January
12 September (Monday)	
22 November	

(ii) that the Chairman consult Members regarding a possible alternative date on which to hold a meeting in March 2017.

OTHER URGENT BUSINESS

897 No other urgent business was raised.

AUTHORITY TO CHAIRMAN AND OFFICERS

898 **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.

MINUTES (PRIVATE)

899 **RESOLVED**:-

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

The meeting ended at 1540 hours.

……..……………………………..
CHAIRMAN

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Monitoring Officer, Legal Services**
Date of Meeting:	**26 July 2016**
Subject:	**Whistleblowing & Serious Misconduct Policy**
Wards Affected:	**All**

1. Purpose of Report

To update the Audit Committee and provide an overview on co-ordination of concerns under the Whistleblowing & Serious Misconduct Policy ("the Policy").

2. Recommendations

To note the contents of this report.

3. Background

The Council introduced the Policy on 12 January 2015. In March 2016, following a planned review under the Future Council, Year One Action Plan, Cabinet approved a revised version of the Policy. During its first year a public report was presented to the Council's Overview & Scrutiny Committee, to update and confirm that the new policy had been implemented. Future reports on the Policy will be presented to Audit Committee.

4. Legal and Resource Implications

The Policy is being operated and managed within existing resource.

5. Risk Management and Equality Analysis Issues

Not Applicable.

6. Compliance issues

Not Applicable.

7. Recommendations

To note the contents of this report.

K Charlton

....

Officer Name Kate Charlton
Job Title Joint Interim City Solicitor, Monitoring Officer

Contact Officer: **Michael Day, Senior Solicitor**
Legal Services

Telephone No: **0121 303 2239**

e-mail address: michael.day@birmingham.gov.uk

Audit Committee

26th July 2016

Whistleblowing & Serious Misconduct Policy

Birmingham City Council

Legal & Democratic Services
10 Woodcock Street
Birmingham
B7 4BL

Policy Background and Overview

In 2014, the report of Ian Kershaw recommended that the Council should review the effectiveness of its whistleblowing for schools, to include ensuring a single point of receipt, and appointing a senior officer to monitor and report on the effectiveness of the system. This recommendation was later endorsed by Sir Bob Kerslake in his independent review, in which it was said the process should be mirrored across the Council.

The Council introduced a new Whistleblowing & Serious Misconduct policy on 12 January 2015 ("the Policy"). In March 2016, following a planned review under the Future Council, Year One Action Plan, Cabinet approved a revised version of the Policy.

The Policy applies to all services across the Council, but also makes specific, targeted provision for complaints from, or about, schools. The Policy serves as a route for Council workers to raise protected disclosure concerns. It also provides a platform for members of the public to raise similar concerns about suspected serious misconduct within Council services.

Concerns Raised

This report is accompanied by a number of charts and graphs, which demonstrate the levels of concern received, as they relate to different directorates or service areas for the Council, as well as the source of those concerns.

The Council undertakes to record all concerns raised under the Policy. However, it is important to understand that not every concern reported will automatically fall within the remit of the Policy. In fact, we have seen a relatively low number of matters raised actually fall within the definition of whistleblowing and serious misconduct as defined by the Policy.

In deciding whether a concern should be dealt with under the Policy, the Council looks to the legal definition of a protected disclosure. Namely, whether the concern includes information, of wider public interest, which tends to show at least one of the following is occurring, has occurred or is likely to occur:

a) A criminal offence;
b) Failure to comply with a legal obligation;
c) A miscarriage of justice;
d) A danger to the health or safety of an individual;
e) Damage to the environment, or;
f) That any matter relating to any of the above is being deliberately concealed.

Concerns which do fall within the Policy are referred to the relevant directorate, for investigation. Often, Legal Services will advise on an appropriate form of investigation.

It is not appropriate to discuss specific cases within this report. However, by way of illustration, example concerns which would fall under the Policy include:

- An allegation that an officer has accepted a bribe or abused their position in some way, perhaps for the personal gain of themselves or someone they know, or;
- An allegation that an officer, service or school has acted contrary to a legal obligation, which they are required to comply with.

Example concerns we have seen which fall outside the remit of the Policy, include:

- General concern about service provision within the Council, which can appropriately be dealt with under the Council's existing, general complaint processes, or;
- A complaint about a decision where there is already another, established route for appeal (for example, where a planning or licensing application is refused);

Where concerns fall outside the Policy, Legal Services will ensure it is referred to the appropriate service, or that the complainant is appropriately advised about how to take the matter forward.

The statistics appended to this report, show that members of the public generally raise the majority of concerns under the Policy, although the balance is less consistent for those concerns which meet the specific definition of serious misconduct (figures 1 - 4).

Concerns by Service Area

Throughout 2015 and already during the first half of 2016, schools account for the highest number of concerns overall (figures 7 & 8). However there are over 400 schools in Birmingham, which to some extent touch upon the lives of more than half the population of the city, so there will always be a greater public scrutiny of these services. It should also be noted (figures 5 & 6) that a large proportion of school concerns, are actually about academies, which are not maintained or controlled by the Council.

Within the wider Council, directorates containing a higher number of front-line services generally attract a greater number of concerns under the Policy. Again this may be due to greater public scrutiny being focused here. However, across all services, the vast majority of investigations have concluded there is no evidence of serious misconduct within the Council (by way of illustration, in 2015, just 3 investigations found any evidence of misconduct or wrongdoing).

Reporting

To address each of these concerns and ensure that any patterns or trends causing concern can be dealt with, a robust reporting process exists under the Policy.

The single point of contact for all concerns is the Council's Monitoring Officer. In addition, the Strategic Director for each Council directorate receives a quarterly report on the concerns which relate to their service areas. A quarterly report is also provided to the Improvement Quartet, in respect of concerns raised about schools in Birmingham.

A separate report is prepared for the Council's Corporate Leadership Team each quarter, providing a high level overview on the number of concerns raised, comparable across each directorate. Meanwhile, every six months an anonymised summary of all concerns is also shared with the Council's Chief Executive, Assistant Chief Executive and Deputy Leader.

Whistleblowing and Serious Misconduct Policy Statistics

FIGURE 1

SOURCE OF CONCERNS 2015
(total number of concerns)

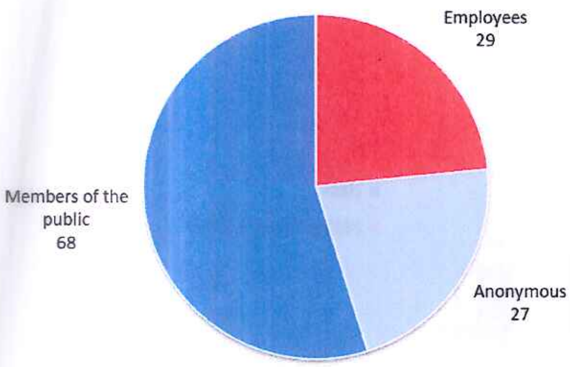


FIGURE 2

SOURCE OF CONCERNS 2016 (TO 1 JUNE 2016)
(total number of concerns)

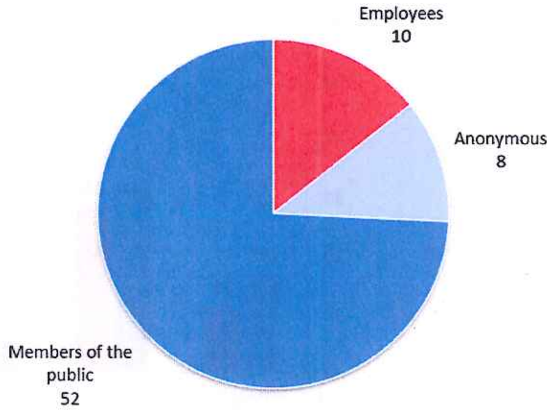


FIGURE 3

SOURCES OF CONCERN 2015
(complaints which fall under the policy)

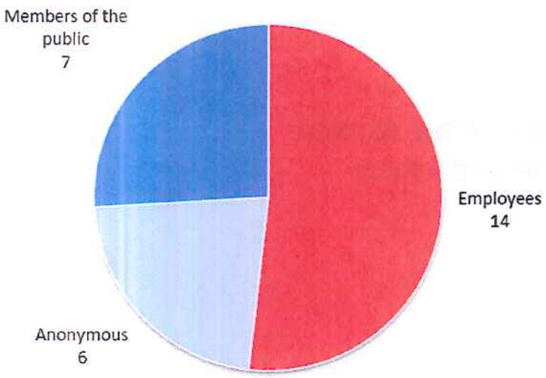


FIGURE 4

SOURCES OF CONCERN 2016 (TO 1 JUNE 2016)
(complaints which fall under the policy)

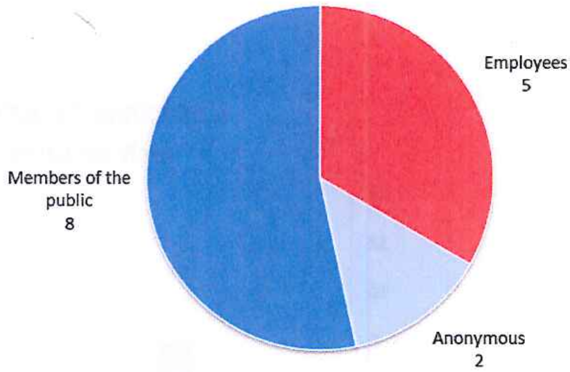


FIGURE 5

CONCERNS ABOUT SCHOOLS 2015

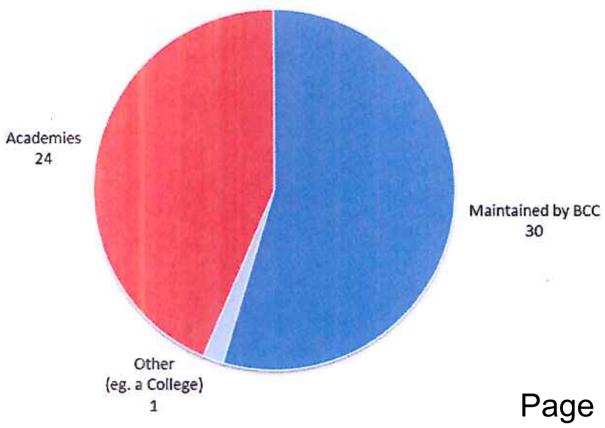


FIGURE 6

CONCERNS ABOUT SCHOOLS 2016 (TO 1 JUNE 2016)

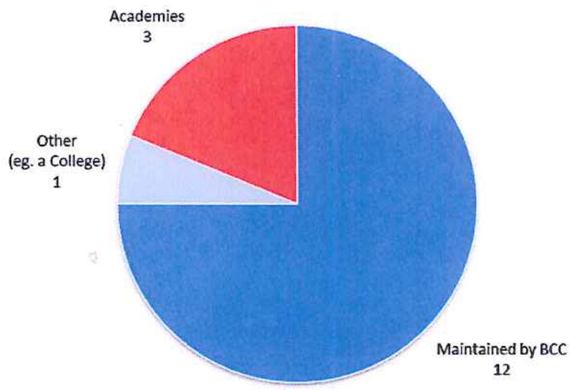
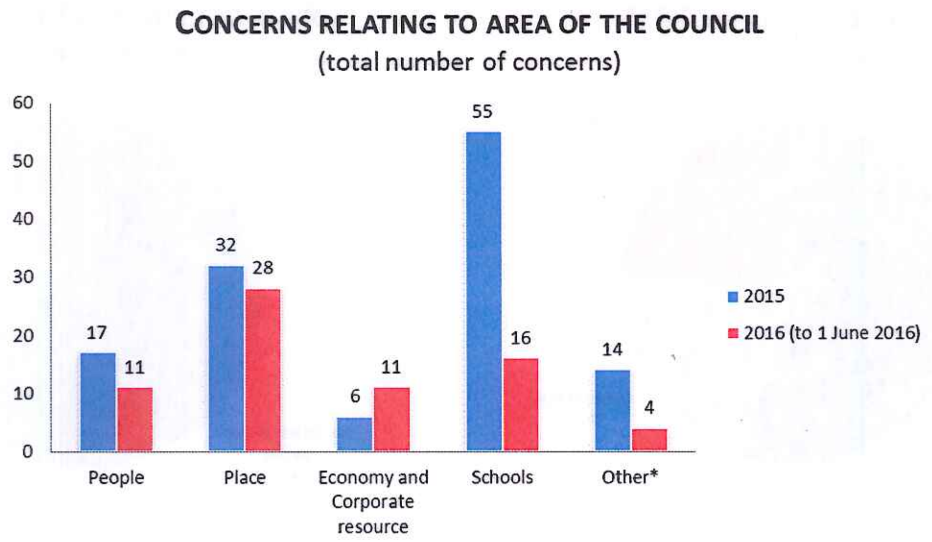
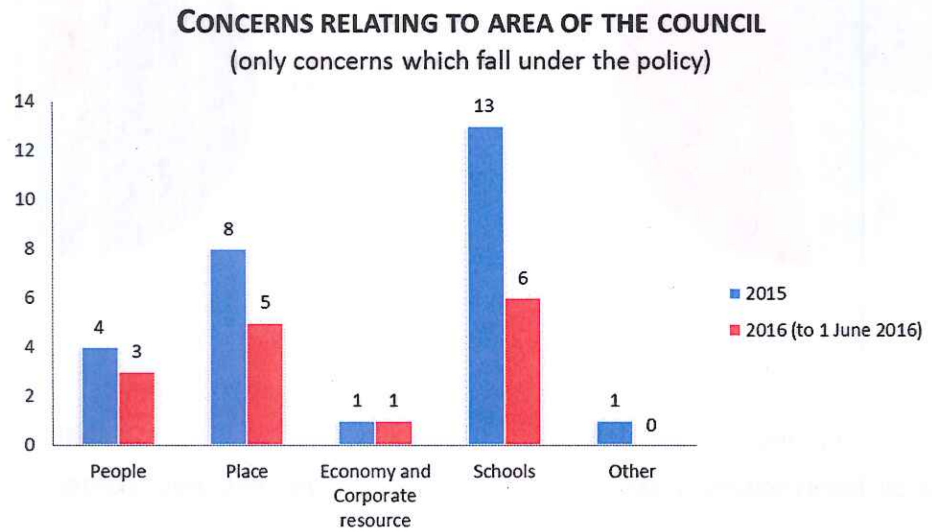


FIGURE 7



*Other includes concerns raised about people or organisations which are not employed or controlled by the Council (for example, if a person complains to the Council about their hospital, or about the Police), or it might be where there is insufficient information to identify which Council service the concern relates to

FIGURE 8



BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Acting Assistant Director, Audit and Risk Management**
Date of Meeting:	**26 July 2016**
Subject:	**Annual Fraud Report 2015/16**
Wards Affected:	**All**

1. Purpose of Report

1.1 The attached report updates the Audit Committee on how the City Council has managed the risk of fraud during the period April 2015 to March 2016.

2. Recommendations

2.1 Members note the content of this report.

2. Background

2.1 The annual fraud report is a standalone report to summarise how the risk of fraud is being managed by the City Council.

4. Legal and Resource Implications

4.1 The Internal Audit service is undertaken in accordance with the requirements of section 151 of the Local Government Act and the requirements of the Accounts and Audit Regulations 2015. The work is carried out within the approved budget.

5. Risk Management and Equality Impact Assessment Issues

5.1 Risk management forms an important part of the internal control framework that the Council has in place.

5.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

6. Compliance issues

6.1 Decisions are consistent with relevant Council Policies, Plans or Strategies.

7. Recommendations

7.1 Members note the content of this report.

…………………………………………………..

Craig Price

Acting Assistant Director – Audit & Risk Management

Contact Officer: Craig Price, Acting Assistant Director, Audit & Risk Management

Telephone No: 0121 303 3475

e-mail address: craig.price@birmingham.gov.uk

Birmingham City Council
Birmingham Audit
Annual Anti-Fraud Activity Report 2015/16

1. Introduction

In common with other public bodies the City Council has a duty to protect the public purse. The purpose of this report is to update the Audit Committee on national and local fraud issues that are of relevance to the City Council.

The standards of governance required within the public sector are high, and controls within systems must be effective to minimise the risk of fraud and error. However compliance with these controls can sometimes be an issue. Birmingham Audit is tasked with the investigation of suspected fraud and error and the identification of any system or procedural issues that allow such incidents to occur. We identify how fraud or other irregularity has been committed and make recommendations to management to address weaknesses in controls to reduce the chance of recurrence in the future. We need to view our performance in the context of reasonable levels of materiality.

There remains a high level of interest in fraud nationally. This is fuelled in part by the necessity to make scarce resources go as far as possible, particularly during times of austerity. Birmingham Audit are therefore continually looking to enhance its counter fraud capability and develop new and innovative ways of identifying irregularities, whether this be the result of fraud, error, or procedural non-compliance.

2. Audit Committee

The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the City Council to reduce levels of fraud. We regularly report on counter-fraud activity as part of our overall reporting on the work of the audit service. The Committee share the view that prevention, detection and deterrence are all important and have probed what actions management can take to prevent fraud entering the systems in the first instance.

Previously, the Audit Committee have received our self-assessment of the City Council's performance in countering fraud against the Audit Commission publication 'Protecting the Public Purse'. We were able to report that the City Council is performing well against the questions on the checklist, and we have done likewise in a recent self-assessment of our performance against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption.

3. Resources for Counter Fraud Work

The Corporate Fraud Team (CFT) is a dedicated counter-fraud team within Birmingham Audit and is responsible for the investigation of suspected financial irregularities perpetrated against the City Council, whether this is by employees, contractors or other third parties. The team will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the City Council. A sub-team within CFT was established to specifically tackle ‘application based’ fraud, primarily related to Social Housing and Council Tax, as well as providing an intelligence hub. The resources available for counter fraud activities have remained unchanged from 2014/15 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.

Last year we were successful in bidding for funding from the Department for Communities and Local Government (DCLG) Counter Fraud Fund to provide a continuous fraud monitoring capability to run across the City Council’s main financial systems. We have worked with an external partner to develop various data matches and exception reports on the Payroll and Accounts Payable systems to identify potential anomalies. This will also help to inform the routine audit assurance work in these key financial systems. Part of the project has involved a process of knowledge transfer which will enable us to run our own reports in the future to help flag up any unusual patterns in transactions for further interrogation and investigation.

4. Raising Awareness

The overall stance on fraud by the City Council is set by our Anti-Fraud and Corruption Policy, Fraud and Corruption Response Plan, and the Whistle Blowing Code. Revisions to the first two of these were approved by the Audit Committee in 2013/14, whilst a revised Whistleblowing and Serious Misconduct Policy was launched last year.

We cannot stress enough the importance of staff following laid down policies and procedures. This helps the City Council to minimise the risk of fraud and assists in protecting staff against allegations of impropriety. We continue to see cases where staff appear to be unaware of how their actions will seem when viewed independently. As a result processes for decision making can appear to be flawed and lack transparency.

As part of our work in raising the awareness of fraud throughout the City Council we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated to senior staff in all directorates, as well as to all schools and elected members. It is also published on the Birmingham Audit webpage. We also periodically issue alerts through e-Briefings whenever we become aware of a fraud threat in a particular area.

Although limitations on our resources largely preclude us from providing fraud awareness training sessions, in response to a request from Planning & Regeneration, the team last year provided awareness training to their staff on the fraud risks associated with grant applications. This followed investigations undertaken into applications made by businesses for grant funding, which identified anomalies in the supporting documentation. We also continue to provide training for staff involved in dealing with housing applications and tenancy issues as well as offering advice and guidance. We are looking at developing an e-learning package specifically for these areas. In addition we have agreed with the Service Director for Housing Transformation to have a campaign to raise awareness of social housing fraud.

Levels of Fraud

It is difficult to measure the level of fraud. Not all fraud is formally reported and some will go undetected. In some cases it is difficult to quantify a value. Similarly, some losses can be attributed to error, misinterpretation or poor management. A good example of this is contract management, where contractors seek to maximise their profits by exploring potential loopholes within contracts.

A recent estimate from the UK Fraud Costs Measurement Committee (UKFCMC) puts the annual value of fraud across all sectors of the UK economy at £191 billion. This represents a massive increase on the previous estimate from the National Fraud Authority (NFA), who in 2013, put the figure at £73 billion. The UKFCMC report estimates the level of fraud against the public sector as £37.8 billion, which again represents a significant increase in the previous estimate of £20.1 billion produced by the NFA.

It is difficult to place a monetary value on our anti-fraud activity during 2015/16, particularly in terms of our activity in relation to prevention and deterrence. Some quantifiable losses which are identified through investigation may be recovered, and work on the associated system issues may prevent and deter further losses. During 2015/16, the level of fraud/error investigated by CFT totalled in excess of £0.5m. This excludes application based fraud which is covered in Section 6 of this report.

During the year CFT received information in respect of 139 potential irregularities covering a wide range of issues. This represents a slight increase on the previous year. Referrals are received from a variety of sources. The City Council’s Financial Regulations place a responsibility on all employees to report suspicions of financial irregularity, and the revamped whistleblowing procedures have encouraged more staff to make disclosures. We also receive information from various external sources, including members of the public. Additional referrals may arise when we raise awareness of a particular issue, such as the invoicing scams which are usually targeted at schools. Last year we received several referrals concerning breaches of data security. Whilst these cases do not constitute fraud, they nevertheless can pose a significant risk, both in terms of potential fraud and reputational risk.

Each referral is assessed and a decision made as to whether an audit investigation is necessary or whether the matter is best left to local management to deal with. This enables us to concentrate our resources on the most urgent or high profile cases. The split between different types of referral in any year can be affected by a number of factors. Over the last few years we have received a high number of referrals relating to payroll overpayments as part of an ongoing payroll cleanse within Shared Services. Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave etc.) have given rise to 27 salary overpayments over £3,000, with a combined value of £207,391. The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been taken.

The team identify how fraud, or other irregularity, has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. In carrying out our investigations we have regard to the various outcomes available, whether this is internal disciplinary action against a Council employee, recovery of any funds, or referring the matter to the police for possible criminal action. We continue to work with Human Resources and Legal Services colleagues to ensure the best outcome for the City Council.

5. Social Housing Fraud/Council Tax Fraud

The re-prioritisation of our work in recent years to reflect those areas seen as high-risk, has seen more resources being committed to tackling Social Housing and Council Tax fraud, both of which are commonly acknowledged nationally as being high risk areas.

During the year we have continued to work closely with the Place and People Directorates, as well as local Registered Providers of social housing, to investigate and remedy the problem of housing tenancy fraud. This includes advising on records management, photo ID's, the new application system, and providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications.

Sharing data with partner organisations has enabled us to identify duplicate tenancies, fraudulent housing applications and new addresses for tenants who left our properties with rent arrears.

We continue to enhance our capability by developing our data warehouse facility. This has allowed us to extend access to the facility to frontline housing services, where it has been embedded into their verification checks on applications. We have also extended remote access for partners, allowing them to do likewise. The extension of our data warehouse to include not only City Council data, but also the tenancy data of our partners and neighbouring authorities, has provided us with a sophisticated data resource to enhance our intelligence function. This is used extensively to support not only our own investigations, but also to assist other parts of the Council and external law enforcement agencies in tackling crime and disorder. Last year we received 894 intelligence requests.

We continue to receive a high number of notifications relating to potential Social Housing fraud, although the 900 received last year was significantly less than the 1,140 received in 2014/15. Through its investigations, the team recovered 95 City Council and Registered Provider properties (77 in 2014/15) with a combined indicative value of £8,835,000*. We also cancelled 300 housing applications prior to letting (364 in 2014/15), with a combined indicative value of £10,800,000**, and reduced the points on a further 77 applications. We have also stopped 7 Right to Buy applications (4 in 2014/15), with a combined indicative value of £455,000***. In addition, during the course of our work, we have located former tenants owing rent totalling £95,061.

* Based on indicative cost of £93,000 per property, source: Cabinet Office
** Based on an indicative saving of £36,000 per application, source: Cabinet Office
*** Based on an indicative saving of £65,000 per property, source: Cabinet Office

The introduction of legislation in the form of the Prevention of Social Housing Fraud Act 2013, now provides us with additional means to prosecute offenders. A Prosecution & Sanctions Policy was approved by the Audit Committee in 2013 and we have reviewed this to make sure that it remains fit for purpose. Regrettably, our ability to take criminal action against offenders is often hindered by inadequate paperwork held within the directorates. We have raised the issue with the Service Director for Housing Transformation, and it is proposed that a nominated Housing Officer in each quadrant is given specific responsibility for supporting our investigations by locating and providing the necessary documentation. Last year we applied sanctions in five cases. One of these included the prosecution of a former City Council employee, who was found to have abused her official position to make fraudulent homeless applications, falsely securing tenancies on three properties. The employee was dismissed and recently received a three year custodial prison sentence. We have recovered the three properties and have initiated proceedings under the Proceeds of Crime Act to recover losses arising from the former employee's actions.

There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping Social Housing fraud. We will continue to work with the directorates to further develop work in this area.

Since April 2013, local authorities have been responsible for administering their own Council Tax Support schemes and need to ensure that safeguards are in place to minimise fraudulent claims. The Council Tax Reduction Schemes - Detection of Fraud & Enforcement (England) Regulations 2013 authorise the investigation of offences in relation to Council Tax Reduction Schemes and also create offences and enable penalties to be imposed in connection with these schemes. These are reflected in our Prosecution & Sanctions Policy which was approved by the Audit Committee in 2013 and we have reviewed this to make sure that it remains fit for purpose.

Fraud relating to the City Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. We have encountered some legal and operational obstacles which have largely prevented us from applying sanctions against those who have committed Council Tax related fraud, so our response when fraud is identified is to ensure that the account is corrected and revised Council Tax charges are levied. However, we have recently discussed with the Revenues Section, the possibility of applying statutory penalties where it is found that someone has committed Council Tax related fraud, and have subsequently advised them of several cases where penalties need to be applied. Last year we received 176 referrals relating to Council Tax. Our work identified fraudulent claims for exemptions such as Single Person Discounts (SPD's), of around £60,000, and Council Tax Reduction of £130,000. In addition, during the course of its work, the team identified Housing Benefit overpayments totalling £562,291.

We have taken advantage of a Flexible Data Match provided through the National Fraud Initiative (NFI) which matched Council Tax Single Person Discounts (SPD's) to the Electoral Register. A total of 8,998 matches were identified where an SPD is being awarded at a property, but there is more than one person recorded on the Electoral Register. We sifted the matches to remove duplications from previous data matches and concentrated on the higher Council Tax band properties and highlighted 53 matches for investigation. To date we have identified fraud/error in 14 of these cases, with a combined overpayment in excess of £12,500. We have also matched the data provided by NFI with housing applications data, which has enabled us to close/amend some of the applications, make changes to Council Tax liability, identify Housing Benefit overpayments, and correct the Electoral Register.

6. National Fraud Initiative (NFI)

The National Fraud Initiative is a bi-annual exercise which seeks to match various data held by public bodies to identify fraud and error. The exercise used to be carried out by the Audit Commission, but after their abolition, the Cabinet Office has taken over responsibility. In early 2015 the Cabinet Office provided us with the results of their 2014/15 data match, and have subsequently provided further reports, in total producing over 45,000 matches indicating potential anomalies in data. In addition we have subscribed to the NFI Flexible Data Matching Service, which has produced a further 8,998 matches in Council Tax related data (see 6 above). The majority of these matches are not indicative of either fraud or error; some are due to errors in data recording, however a few have resulted in fraud being detected. The Cabinet Office indicate which reports they consider to have a high risk of fraud and have recommended that we review just under 10,000 of the matches. This together with our previous experience has been used to decide which matches to look at. There is no expectation that we will look at them all and due to the limitations in our resources, we rely on individual service areas to check some of the matches. The work on these continues and to date we have processed 7,786 matches, identifying fraud and error of £206,036.

Over 35% of the total matches relate to Housing Benefit records. Previously, these matches would have been reviewed by the Benefit Counter Fraud Team, but the creation of the Single Fraud Investigation Service (SFIS) as part of the Welfare Reform Act, meant that this function was transferred to the Department for Work & Pensions (DWP). These matches have therefore been referred to the Benefit Service to review, which has meant training a number of their officers to use the NFI database. Where potential anomalies are confirmed, a referral is made to SFIS for investigation. It is estimated that around 250 referrals have been made to date. The Benefit Service have actioned all high and medium recommended matches, with the exception of those relating to Student Loans, which are still being worked on. Of all the matches actioned to date, a total of £161,781 in overpaid Housing Benefit has been identified.

Just under 14% of the total matches relate to claims for Council Tax Reduction (CTR). Where anomalies are identified adjustments have been made to the Council Tax accounts in question. To date we have identified fraud and error totalling £32,103. We have not been able to pursue these cases on a criminal basis as in many cases there are no separate CTR documents, as claims were 'passported' over if the claimant was previously in receipt of Council Tax Benefit (CTB).

We have worked with directorates to resolve issues that have been identified in the various other reports produced by the NFI.

7. Proactive Fraud Work

In our attempts to concentrate our resources to address areas deemed to be particularly at risk to fraud and error, last year we began a number of proactive fraud exercises. Using our experience of where previous fraud referrals have come from, we have undertaken projects on payroll overpayments, nursery income and direct social care payments. These projects not only help to detect fraud/error, but also highlight areas of poor practice and procedural non-compliance. Indeed the work that we undertook to identify payroll overpayments, by identifying users whose system access had become dormant and comparing them to active payroll records, has now been adopted by the Payroll & Pensions Section, as one of their standard checks to highlight potential overpayments.

We are looking to develop our proactive work programme and with the funding secured from the DCLG, work has started on a project using data analytics to continually monitor the main financial systems for fraud and error, and data matches identified to date are currently being reviewed. Through our liaison with other local authorities and professional bodies, we continually look to identify emerging fraud risks for inclusion in our programme of proactive work.

8. Management of Staff

We still receive a high number of referrals which relate to problems which would not have occurred if staff had been more effectively managed. Failure to have in place procedures and working practices may result in reduced levels of internal control and place greater reliance on the monitoring of budgets and performance. It is important that managers understand their roles and responsibilities in this. Similarly, it is important that staff follow procedures and adhere to the Code of Conduct, and when they don't, appropriate management action is taken.

9. Conclusions

Counter fraud work remains a priority for the City Council. We continue to work on reinforcing the message of 'zero tolerance' through prevention, detection and deterrence.

As part of our investigatory work we continue to highlight weaknesses in systems and procedures making recommendations to assist management in addressing these issues.

Whilst it is difficult to assess the City Council's overall exposure to the risk of fraud, it is safe to say that there will always be an increased risk in those areas where systems are weak, or where controls are allowed to be circumvented. Managers must remain alert to this risk and take responsibility for assessing it within their business area by ensuring that robust procedures are in place, and are followed. This is more important than ever with fewer resources available.

Our continued commitment to tackle Social Housing fraud has not only delivered financial benefits to the Council, by freeing up scarce housing resources, it also provides huge social benefits by helping to ensure that these resources are allocated to those most in need.

Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error.

We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that employees know how to report any concerns that they may have.

Neil Farquharson

Group Auditor – Corporate Fraud Team

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: Audit Committee

Report of: Acting Assistant Director, Audit & Risk Management

Date of Meeting: 26th July 2016

Subject: Corporate Risk Register Update

Wards Affected: All

1. Purpose of Report

1.1 To update the Audit Committee with information on the management of risks and issues within the Corporate Risk Register (CRR) (Appendix A). The information in Appendix A has been compiled using updates received from directorates.

2. Recommendations

2.1 That the Audit Committee reviews the information provided by directorates and decide if the risk ratings are reasonable, if action being taken is effective, or if further explanation / information is required. The level of risk has remained static for most risks, but two have reduced:

- Risk 3 - Failure to identify alternative funding streams for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate.
- Risk 10 - Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget).

2.2 That the Audit Committee approves the deletion of two risks:

- Risk 21 - Risk of the current information technology equipment not being refreshed / up dated to maximise use and obtain full benefit from utilising technology.
- Risk 23 - Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).

This is because:

- Risk 21 - the desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.

- Risk 23 - 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.

2.3 That the Audit Committee approves the rewording of risk 13 to include reference to failure to implement the savings programme.

2.4 That the Audit Committee approves the three new risks:

- Risk 24 - Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions.

- Risk 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.

- Risk 26 - Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.

2.5 That the Audit Committee considers if any new risks, further re-wordings or deletions should be included in the CRR.

2.6 That the Audit Committee considers if it requires further information on the management of any of the risks included in the CRR.

3. Background Information

3.1 Members have a key role within the risk management process.

3.2 The Audit Committee terms of reference, sets out its responsibilities and in relation to risk management these are:

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment,

- whether there is an appropriate culture of risk management and related control throughout the Council,

- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and

- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

4. Corporate Risk Register Update

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

4.2 The CRR focuses on the cross-cutting corporate issues.

4.3 A Lead Director has been identified for each risk. Directorates have provided information detailing the management of the risks within their service areas as at May 2016.

4.4 The CRR is attached as Appendix A.

5. Embedding Risk Management

5.1 Presentations, training and facilitated workshops are provided by Birmingham Audit on request to help embed risk management across the Council and in working with our partners. The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet.

5.2 Information on the Council's approach to risk management is available via the BCC website - these are public documents for staff, external partners and anyone else to see. Additional information is attached to the risk management page on InLine, to support staff in using risk management in their day to day role. Advice, support and guidance are provided by Birmingham Audit as requested.

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

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

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Risk Management & Equality Impact Assessment Issues

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

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

8. Compliance Issues

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

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Acting Assistant Director, Audit & Risk Management

Contact officer: Cynthia Carran, Principal Business Auditor
Telephone No: 303 2104
e-mail address: cynthia.carran@birmingham.gov.uk

BCC Risk Map - July 2016

Likelihood:

Likelihood	Low	Medium	Significant	High
High			Alternative funding for schools PFI contracts / maintenance of schools estate (R3); Employee relations / sickness absence levels (R7); Highways PFI - Core Investment deliverables (R6)	Defend / settle post 2008 equal pay claims (R1); Not responding to improvement agenda / improving childrens safeguarding (R2); Compliance re Counter Terrorism & Security Act and Prevent Duty (R26)
Significant		Not divesting of property assets (R15); Malicious attacks on web based services (R16); Ineffective Corporate Risk Marker IT solution (R17)	Younger Peoples Re-Provision Programme (R8)	Defend / settle pre 2008 equal pay claims (R4); Further equal pay claims (R5); Failure to deliver actions & implement savings programme (R13b); Pensions Deficit - increase in employer contributions (R24)
Medium		Evaluation of service deliver options (R18); Delivery of Localisation Agenda (R19); Unpaid allowances (R20)	Responding to Kerslake Report (R10); Compliance to Equality Act 2010 & PSED (R12); Not planning appropriately for ongoing reduction in government grants (R13a); Insufficient IT expertise / lack of control of non-core IT spend (R14)	Responding to school governance concerns (R9); Loss of personal / sensitive data (R11); Compliance to timescales for DoLS referrals (R25)
Low		Action / fines by the ICO (R23)	IT refresh / update (R21); Fines from HMRC (R22)	
	Low	**Medium**	**Significant**	**High**

Impact

Key:

- Severe: Immediate control improvement to be made to enable business goals to be met and service delivery maintained / improved.
- Material: Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained.
- Tolerable: Regular review, low cost control improvements sought if possible.

Index by Risk / Issue Number

New No.	Orig No.	Short Description of Risk / Issue	Page
1	1c	Defend and / or settle post 2008 equal pay claims	11
2	23 / 61	Not responding fully and effectively to the improvement agenda for children - improving children's safeguarding and social care	11
3 Risk reduced	14b / 50	Failure to identify alternative funding stream for school PFI contracts - impacting on availability of maintenance funding for essential management of the LA schools estate	15
4	1a	Defend and / or settle pre 2008 equal pay claims	14
5	1b	Further equal pay claims	14
6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case	17
7	30	Employee relations, performance issues, sickness absence levels, etc	17
8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme	18
9	57	Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters	18
10 Risk reduced	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget)	22
11	45	Loss of personal or sensitive data	20
12	2	Failure to comply with the Equality Act 2010 and the Public Sector Equality Duty	23
13 Risk reworded	28	Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources, including taking the necessary actions to avoid legal challenge. Failure to deliver the necessary actions to implement the savings programme	25
14	52	Insufficient in-house IT expertise within directorates & inadequate or ineffective corporate control of non-core IT spend	26
15	32	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery	26
16	42	Web services may be disrupted by malicious attacks on Council's web based services	27
17	55	Ineffective Corporate Risk Marker IT solution	28
18	37	Evaluation of cost & benefits of different service delivery options & failure to fully implement the decisions made to change policy / service delivery	29
19	41	Delivery of the Localisation Agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement	30
20	44	Unpaid allowances	31
21 Nominated for deletion	35	IT refresh / update	31
22	54	Risk of fines from HMRC for directorates employing long term consultants	33
23 Nominated for deletion	59	Risk of enforcement action and fines by the ICO for failure to comply with the 40 day timescale for responding to SARs	33
24 New risk	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions	15
25 New risk	N/A	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	21
26 New risk	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty	13

Corporate Risk Register Update for Audit Committee July 2016

Key: CO - Corporate Objective. AFC - A fair city: where people are safe, healthy and not living in poverty. APC - A prosperous city: where businesses flourish, where people have education and training, and where unemployment is low. ADC - A democratic city: where people have more say in local decision-making.

INDEX OF RISKS / ISSUES (in order of severity of risk)

Ranking	New Ref No.	Old Ref No.	C. O.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact July 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: March 2016	Nov 2015	July 2015	Page No.
1	1	1c	APC	Defend and / or settle post 2008 equal pay claims.	Strategic Director, Finance &Legal	**Actual: H/H** **Target: S/H**	Same	**H/H**	**H/H**	**H/H**	11
2	2	23 & 61	AFC	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	Strategic Director, People Directorate	**Actual: H/H** **Target: M/H**	Same	**H/H**	**H/H**	**H/H**	11
3	26	N/A	AFC	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty	Strategic Director Place Directorate	**Actual: H/H** **Target: M/S**	N/A				13
4	4	1a	APC	Defend and settle pre 2008 equal pay claims.	Strategic Director, Finance &Legal	**Actual: S/H** **Target: L/H**	Same	**S/H**	**S/H**	**S/H**	14
5	5	1b	APC	Further equal pay claims.	Strategic Director, Finance &Legal	**Actual: S/H** **Target: M/H**	Same	**S/H**	**S/H**	**S/H**	14
6	24	N/A	APC	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions	Strategic Director, Finance & Legal	**Actual: S/H** **Target: M/M**	N/A				15
7	3	14b / 50	APC	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate.	Strategic Director, Finance &Legal	**Actual: H/S** **Target: M/S**	Reduced	**H/H**	**H/H**	**H/H**	15
8	6	46	APC	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case.	Strategic Director, Economy	**Actual: H/S** **Target: L/S**	Same	**H/S**	**H/S**	**H/S**	17

Corporate Risk Register Update for Audit Committee July 2016

Ranking	New Ref No.	Old Ref No.	C. O.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact July 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: March 2016	Nov 2015	July 2015	Page No.
	INDEX OF RISKS / ISSUES (in order of severity of risk)										
9	7	30	A P C	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.	Strategic Director, Change & Support Services	**Actual: H/S** **Target: L/M**	Same	**H/S**	**M/S**	**L/S**	17
10	8	N/A	A F C	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	Strategic Director, People Directorate	**Actual: S/S** **Target: M/S**	Same	**S/S**	**S/S**	**N/A**	18
11	9	57	A F C	Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters.	Strategic Director, People Directorate	**Actual: M/H** **Target L/H**	Same	**M/H**	**S/H**	**S/H**	18
12	11	45	A P C	The loss of significant personal or other sensitive data.	Strategic Director, Major Projects	**Actual: M/H** **Target: L/H**	Same	**M/H**	**M/H**	**M/H**	20
13	25	N/A	A F C	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	Strategic Director, People Directorate	**Actual: M/H** **Target: M/S**	N/A				21
14	10	N/A	A P C	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget).	Chief Executive	**Actual: M/S** **Target: L/H**	Reduced	**M/H**	**M/H**	**M/H**	22
15	12	2	A D C	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	Strategic Director, Place Directorate	**Actual: M/S** **Target: M/S**	Same	**M/S**	**M/S**	**M/S**	23
16	13	28	A P C	a) Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources and avoid legal challenge. b) Failure to deliver the necessary actions to implement the savings programme.	Strategic Director, Finance & Legal	**Actual: M/S** **Target: L/L (ratings relates to (a))**	Same	**M/S**	**M/S**	**M/S**	25

Corporate Risk Register Update for Audit Committee July 2016

Ranking	New Ref No.	Old Ref No.	C. O.	INDEX OF RISKS / ISSUES (in order of severity of risk) Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact July 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: March 2016	Nov 2015	July 2015	Page No.
17	14	52	APC	Insufficient in-house IT expertise within Directorates and inadequate or ineffective corporate control of non-core IT spending.	Strategic Director, Change & Support Services	**Actual: M/S** **Target: L/S**	Same	**M/S**	**M/S**	**M/S**	26
18	15	32	APC	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	Strategic Director, Major Projects	**Actual: S/M** **Target: M/L**	Same	**S/M**	**S/M**	**S/M**	26
19	16	42	APC	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	27
20	17	55	AFC	Ineffective Corporate Risk Marker IT solution.	Strategic Director, Change & Support Services	**Actual: S/M** **Target: L/M**	Same	**S/M**	**S/M**	**S/M**	28
21	18	37	APC	Failure to adequately evaluate the costs and benefits of different service delivery options. Failure to fully implement the decisions made to change policy and service delivery.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**M/M**	**S/M**	29
22	19	41	ADC	Failure to deliver the Council's localisation agenda and commitments made in the Council's improvement Plan and Leaders Policy Statement.	Strategic Director, Place Directorate	**Actual: M/M** **Target: L/M**	Same	**M/M**	**M/M**	**M/M**	30
23	20	44	APC	Unpaid allowances / contractual overtime payments / equality of flex time agreements.	Strategic Director, Change & Support Services	**Actual: M/M** **Target: M/M**	Same	**M/M**	**M/M**	**M/M**	31
24	21	35	APC	IT Refresh / update.	Strategic Director Change & Support Services	**Actual: L/S** **Target: M/M**	Same	**L/S**	**L/S**	**L/S**	31

Corporate Risk Register Update for Audit Committee July 2016

Ranking	New Ref No.	Old Ref No.	C. O.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact July 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee: March 2016	Nov 2015	July 2015	Page No.
	INDEX OF RISKS / ISSUES (in order of severity of risk)										
25	22	54	A P C	Risk of fines from HMRC for Directorates employing long–term consultants.	Strategic Director Change & Support Services	**Actual: L/S** **Target: L/M**	Same	**L/S**	**L/S**	**L/S**	33
26	23	59	A P C	Risk of enforcement action and fines by the ICO for failure to comply with the 40 day timescale for responding to SARs.	Strategic Director, Major Projects	**Actual: L/M** **Target: L/L**	Same	**L/M**	**H/H**	**H/H**	33

APPENDIX A

Corporate Risk Register Update for Audit Committee July 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
1	1c	Failure to successfully defend and / or settle post 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	High / High	**Lead Director comment** A significant number of claims have been issued. A proportion of these have already been settled or are in the process of settlement. A growing proportion are now progressing through the tribunal and civil court process. No win / no fee solicitors are still canvassing for claimants. The validity of claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge. Settlement of claims is subject to financial provision and establishing validity of claims.	**Target risk rating:** Significant / High **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - regular separate reporting to Corporate Governance Group, EMCB and the Audit Committee. External & internal audit review.	O&S - The subject of equal pay claims has been discussed at meetings of the Corporate Resources O&S Committee and former Governance, Resources and Customer Services, but only in general terms during items relating to the Council's budget and Annual Audit Letter. IA - Payroll review work undertaken annually.
2	23 & 61	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. Lead: Strategic Director, People Directorate Owner: Alastair Gibbons	High / High	**Lead Director comment** Lord Warner concluded his work at the end of May 2015. A 2-year refreshed improvement plan has been agreed by Cabinet and includes practice improvement, recruitment and retention, commissioning and partnership working. It reflects a new vision and purpose for Children's Services and focuses on how we will support workers to deliver more direct social work with families, to bring about positive change for children. The DfE have agreed that Essex will be our improvement partner and a plan of activities has been agreed. The first phase of the Essex work involved a diagnostic self-assessment of Assessment Teams & Safeguarding Teams leading to plans for improvement. This has been completed and lessons incorporated. The Chief Social Worker has been appointed, and with Principal Social Workers for each of the areas and MASH, is reviewing and driving practice improvement underpinned by a new practice evaluation system.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance, Peer review, Ofsted visits, Scrutiny Committee monitoring, and Children's Commissioner fortnightly. Quartet Board Meetings (Children's Improvement Programme Board); Essex improvement support. The refreshed improvement plan, with the necessary investment is being delivered. There is still much to do, (for example, about the capacity of HR corporate resources, a credible recruitment and retention strategy) to ensure the quality of practice and its timeliness. A proposed new model for the LSCB is being discussed with partners and a new chair has been appointed to the	O&S - Education & Vulnerable Children O&S Committee: • Completed the Scrutiny Inquiry: Children Missing from Home and Care (presented to Council in Jan 2016). Also discussed children missing from education and the safeguarding issues at the Jan 2016 meeting. • Discussed the Children's Social Care and Safeguarding Improvement Plan at the June 2015 meeting. Members had an informal meeting in October 2015 to discuss the

Corporate Risk Register Update for Audit Committee July 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
				We set out a new model for Children's Services in August 2015 and this has been implemented. We are improving our systems and processes including making our early help / MASH front door more accessible and responsive, and we are developing our support for vulnerable young people at risk with the Police and independent sector. The Children's Service is now fully staffed. A new Commissioner for Children's Care has been appointed. He is working with the Council to oversee continued implementation of the improvement plan, already agreed with the DfE. There is now greater clarity on resources and priorities going forward, including a sustainable 4 year financial plan, as part of the Future Council. BCC will be inspected by Ofsted between now and early Autumn, and while the service overall has improved, this risk rating should remain in place until post inspection. Improvement priorities until April 2017; with necessary investment are in place and are being delivered. The Council has announced its intention to explore and develop a Trust Model for Children's Services.	LSCB. Cabinet approval has been given to the replacement of the CareFirst case system so that practitioners are freed up to undertake direct social work practice.	improvement plan in more detail. • Held meetings with the Exec Director for Children's Services, Chief Social Worker, adoption and fostering team and visits to 2 children's homes. IA Reviews 2014/15: Corporate Parenting, MASH, Section 11 Safeguarding Return, Excluded Pupils, Child Protection Plans, Quality of Children in Need Plans and CareFirst IT. IA Reviews 2015/16: Integrated Support Plans, S175 Safeguarding Return, Personal Education Plans, Strategy for Supporting Carers, Effective Home Education, Safeguarding Disclosure & Barring Checks and Multi Agency Safeguarding Hub. IA Reviews 2016/17: Child Protection Case Conference - Engagement, Dealing with Excluded Pupils and Children Missing From Education.

Corporate Risk Register Update for Audit Committee July 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
26	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty. Lead: Strategic Director, Place Directorate Owner: Mashuq Ally New risk.	High / High	**Lead Director comment** The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'. The duty does not confer new functions on any specified authority. The term due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions. The Prevent Strategy of 2011 is part of the overall counter-terrorism strategy, CONTEST. The aim of the Prevent Strategy is to reduce the threat to the UK from terrorism by stopping people become terrorists or supporting terrorism. The Strategy has three specific strategic objectives: • Respond to the ideological challenge of terrorism and the threat we face from those who promote it; • Prevent people from being drawn into terrorism and ensure that they are given appropriate advice and support; and • Work with sectors and institutions where there are risks of radicalisation that we need to address. The Council has applied a partnership and mainstreaming approach to mitigate the risks associated with the threat.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** October 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader. Prevent Delivery Plan in place driven by Counter Terrorism Local Profile (CTLP), monitored by the Prevent Executive Board, chaired by the Chief Executive. Consultations undertaken with elected members, District Chairs and communities. 14,000 front line staff have undertaken Workshop to Raise Awareness of Prevent (WRAP) training. WRAP training undertaken in schools and support provided to schools around Prevent. Prevent is embedded within MASH arrangements and within the Right Services, Right Time safeguarding procedures. CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; chaired by Assistant Director for Equalities, Community Safety & Cohesion. Community initiatives in place commissioned by the Home Officer to provide community solutions. BCC Resilience Team led on the Prepare and Protect strand of the counter-terrorism strategy.	O&S - Mashuq Ally, AD for Equalities, Community Safety and Cohesion, attended the October Neighbourhood and Community Services OSC, to report to the committee and answer questions from Members on the Prevent programme. IA Review 2016/17: Work being undertaken during quarters 1&2.

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4	1a	Failure to successfully defend and / or settle pre 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** In 2010, the Tribunal determined that the Council had no defence to pre 2008 equal pay claims (Barker v Birmingham City Council). C12,000 early claims without the involvement of solicitors have been settled including a further cohort as part of settlement agreements reached in 2011 and 2013. Claims issued since January 2015 are now out of time and are not valid claims. The Council is succeeding in striking out these out of time claims. The validity of claims is constantly challenged by Legal Services. Each claim before any offer to settle is made is subject to robust legal challenge. Any offer of settlement is subject to available financial resources.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	See risk 1 above.
5	1b	Risk of further equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** Claimant solicitors are continually 'fishing' for further equal pay liability by issuing further equal pay claims in addition to those referred to in risks 01and 04. The validity of these type of claims is, and will be subject to robust legal challenge. At the moment, there is no determination as to liability or attainment as to target risk due to the nature of the challenge.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** Not known at current date. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review. With a view to preventing discriminatory working practices, robust review processes and checks and balances have been put in place to mitigate against / prevent further liability post 2011; where evidence of potential risk(s) is known / identified.	See risk 1 above.

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24	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions. Lead: Lead: Strategic Director, Finance & Legal Owner: Steve Powell New risk.	Significant / High	**Lead Director comment** The assessment of any pension fund deficit is updated every 3 years. The position as at 31.3.16 will affect employer contribution rates from 2017/18 onwards. The Council has been proactive in working with other councils (particularly through a sub-group of Finance Directors) and in utilising advisors to provide independent advice and expertise. Regular meetings have been held with the Pension Fund (WMPF) and will continue to ensure that there is a shared understanding of the issues facing both parties. As a result, we expect to be in a position to influence the assessment of the deficit and to negotiate an appropriate recovery period. We expect to receive early information, which will be taken into account in the update of the Council's medium-term financial plan for the period from 2017/18 onwards.	**Target risk rating**: Medium / Medium **Anticipated date of review/attainment of the target risk rating:** December 2016. **Source(s) of assurance regarding progress with mitigating the risk:** • Regular updates to WM Finance Directors. • Sub-group continuing to liaise with advisors and WMPF. • Reporting to Leaders.	O&S - None. IA - None.
3	14b & 50	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate. Lead: Strategic Director, Finance & Legal Owner: Mike Jones Risk reduced.	High / Significant	**Lead Director comment** Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management reporting to Strategic Director Finance & Legal on PFI savings. Oversight and monitoring of temporary school closures due to asset failure. A report was submitted to the March Audit Committee meeting outlining some of the initiatives being pursued to reduce the gap and it was	O&S - None. IA Review 2015/16: Final Planning Permission Breach - Longmoor Special School.

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				significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The current risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include: • Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts although opportunities are limited. • Lean review of Acivico has potential to reduce overheads associated with planned maintenance programme, releasing those funds for investment into the schools stock. • Options for alternative revenue funding stream for the PFI affordability gap are being explored.	anticipated that Cabinet would receive a report at its June meeting seeking agreement to accept the outcomes of recent benchmarking exercises and an arrangement to remove lifecycle obligations from a BSF Design and Build School i.e. Broadway Academy. However, due to delays in the receipt of information from the respective PFI and FM companies it has not been possible to complete the report in time for either the June or July Cabinet meeting. A final offer on benchmarking has been communicated verbally, but until written confirmation has been received the report cannot be concluded	

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6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case for the Highway Maintenance and Management PFI contract. Lead: Strategic Director, Economy Owner: Paul O'Day	High / Significant	**Lead Director comment** The Council has sought to resolve the issue informally but this was not possible. The Council referred this matter for adjudication under the contractual Dispute Resolution procedure, the outcome of which was advised favourably to the Council's case in July 2015. The outcome was referred to court by the Service Provide, and the trial took place in February 2016.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** The judgement following the trial is presently awaited. **Source(s) of assurance regarding progress with mitigating the risk:** External legal advice and representation has been engaged.	O&S - The chair of the Corporate Resources O&S Committee, together with the two opposition leads, received an informal briefing from Highways officers in September 2015 regarding the Amey Contract.
7	30	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. Lead: Strategic Director, Change & Support Services Owner: Dawn Hewins	High / Significant	**Lead Director comment** The budget proposals for 16/17 and 17/18 include making savings of circa £30m from workforce costs. In addition there will be continuing headcount reductions of over 1,000. We are also reviewing our organisational operating model, organisational structure and the roles & responsibilities of employees. This is a significant and challenging change agenda that will have an impact on the Council's workforce, including support staff in the 170 schools within the City still under the employment of the Council. In this context the likelihood of some form of industrial action is probable. There are business continuity plans in place in readiness for industrial action and they have been effective in reducing the impact of action on service users. Particular areas of risk such as Fleet and Waste management have well progressed contingency plans. A workforce planning framework is in place for 2016/17 and its effectiveness will be reviewed during the year.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating*:*** Ongoing. **Source(s) of assurance regarding progress with mitigating the risk:** The Council's workforce strategy is currently in development. This includes; strategic workforce planning aligned to scale and impact of proposed change, robust management of organisational redesign to foresee and manage risks around workload volumes, development and retention of core skills, specialist knowledge, morale and staff engagement. There is a focussed plan to ensure employees have an opportunity to shape and influence proposals and increase understanding as to why these measures are necessary, with extensive engagement sessions taking place across the City Council in various locations. Any delay in decision making could have an effect on implementation. HR teams working with each Directorate on contingency plans.	O&S - The Corporate Resources O&S Committee received an update from the Deputy Leader and senior HR officers at its October 2015 committee meeting. IA Reviews 2015/16: Hardship Grants, Managing Absence, and review of managing absence arrangements in Place Directorate.

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8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme. Lead: Strategic Director, People Directorate Owner: Alan Lotinga	Significant / Significant	**Lead Director comment** The Younger Peoples Re-Provision programme is focused on maximising people's independence and moving them to less restrictive accommodation, which has encountered opposition from carers who do not want people to move. There has also been opposition from providers. Legal Services involved in high risk cases. Proposed new team to script and roll out the offer - job descriptions have been written and JQ'd adverts placed in January. Responses to the 'new team' adverts were poor. As a consequence, concentration has shifted to Senior Management capacity and the detail around 'Maximising Independence for Adults' - the transformational plan for adults taking us to 2020. Recruitment for senior capacity is taking place and the Transformational Plan looks at the Adult Services across the board. Detailed work has taken place re-profiling the target and working with a consultancy Group (Impower). The three year target has been revisited and the remaining 28 million profiled over a five year period in line with Future Council proposals and the Adult Transformation programme. If Future Council proposals proceed then PEPSG will be reviewed.	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Ongoing - review end of September 2016. **Source(s) of assurance regarding progress with mitigating the risk:** The Care & Housing Allocation Panel is in operation, and receives all information regarding placement moves. Commissioning are contributing and discussion is taking place regarding the market. The appointment of a Lead Officer, Commissioning has helped. The Personalisation, Empowerment & Placement Strategic Group (PEPSG) has been formed, which has been informed by a 'peer review' led by the Director of Public Health. The work-streams are reporting into PEPSG and Councillor Hamilton now attends on a regular basis. PEPSG and CHAPS (referred to above) will be reviewed in line with the Maximising Independence for Adults Programme Board, as will the targets and will lead to new arrangements.	O&S - None. IA Review 2015/16: Young Adults Re-provisioning. IA Review 2016/17: Independent Living F/Up.
9	57	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters. Lead: Strategic Director, People Directorate Owner: Colin Diamond	Medium / High	**Lead Director comment** Sir Mike Tomlinson was appointed as Commissioner to oversee a programme of improvement and his time in Birmingham has been extended to July 2016. Improvement is being driven by the Leader, Cabinet Member, Chief Executive and Strategic Director. The City Council and DfE agreed to the appointment of Colin Diamond, Deputy Commissioner, to the interim post of Executive Director Education, from April 2016.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** September 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance obtained through the usual systems, and checked by the Cabinet Member. There will also be verification through key channels - the Unions, meetings with Heads and Governors etc.	O&S - School governance with regard to safeguarding issues was discussed at the June 2015 meeting of the Education & Vulnerable Children O&S Committee and the informal meeting held in October 2015. Members have been involved in the LGA Peer Review. The Peer Review

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				The Education and Schools Strategy Improvement Plan agreed in December 2014 builds on a number of pieces of work including the Clarke and Kershaw reports triggered by Trojan Horse, along with transformation already underway in SEND and Education Services. Progress has been made on a number of issues (for example: a revised recruitment process for LA governors; guidance to schools on the Nolan principles of good governance; improved take up of safeguarding training; a new whistleblowing policy implemented from January 2015; improved communications). The Council commissioned Birmingham Education Partnership to deliver school improvement support and challenge functions from September 2015. An Education Improvement Group comprising BCC, DfE, Regional Schools Commissioner and Ofsted meets monthly to share information on schools causing concern. Systematic school surveys are in place to inform the work of the local authority. Work on civic leadership and community cohesion is being developed given the need to tackle the causal factors underlying Trojan Horse and has been included in the plan as Theme 12. This will complement the city leadership approach to be established in the light of the Kerslake review. A week long peer review, by the LGA in November 2015, confirmed evidence of progress, particularly on safeguarding & governance, and improved relationships with schools but with more to do. By the end of March 2016, the existing plan progress was 94% overall. A new Education Improvement Plan has been drafted for 2016. This covers the next phase of improvement. An operating model for the LA's education function is also being designed and consulted upon.	Oversight of the Action Plan and checks on implementation. Monitor Key Indicators - for example, the extent to which Head Teachers feel complaints / concerns are identified and responded to. Assurance via the Commissioner is an external check.	Findings were due to be discussed at the February 2016 committee meeting. Governance and related matters were also picked up in the previous Scrutiny Inquiry on Child Sexual Exploitation (presented to Council in December 2014) and the recommendations are currently being tracked. IA Reviews 2014/15: Saltley School Visit. School Improvement Strategy. IA Reviews 2015/16: School Governance 2015, numerous school visits and Schools Unannounced Cash Counts. IA Reviews 2016/17: Numerous school visits.

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				An Ofsted inspection of the LA's School Improvement function is imminent and this will provide evidence of improvement and outstanding work.		
11	45	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner. Lead: Strategic Directorate, Major Projects Owner: Malkiat Thiarai	Medium / High	**Lead Director comment** Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training. Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner, and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** August 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance via reports to Breach Management Panel. The annual Breach Management report has been prepared and was presented to the IAB in May 2016. The report shows a reduction in the number of breaches reported from the previous year. Further controls on assuring that suppliers and partners impose similar controls on Council data in their possession. The deployment of the new secure email solution, Egress, is expected to be completed in July / August 2016. New IG training modules - the content of the modules is completed, but, a technical problem with the reporting system within People Solutions has meant a delay in rollout. It is anticipated that this will now begin in July 2016.	O&S - None. IA Reviews 2014/15: Third Party Service Provision, Review on SARs, MASH, Family Support - Data Quality, Children's Services - Data Security Breach and IT Standards. IA Reviews 2015/16: Caldicott Guardian, Information Governance - Data Classification, Third Party Information Security, Data Sharing Review, Sophos Local Self Help, and Information Governance - Fostering & Adoption. IA Review 2016/17: Sophos Post Implementation Review.

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25	N/A	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council. Lead: Lead: Strategic Director, People Directorate Owner: Alan Lotinga New risk.	Medium / High	**Lead Director comment** An expanded Best Interest Assessor (BIA) Team of 25, with a full time Manager and full time Authoriser are now in place, and 16 agency workers hired to address the backlog of referrals as an interim measure, whilst procurement of an external service is finalised. All referrals are triaged and urgent cases prioritised, using DoH Criteria. November and December 2015 performance reports demonstrated for the first time since March 2014 reductions in the number of outstanding assessments resulting in a huge increase in the number of cases authorised (197 in December 2015 compared to 40 in January 2015). The pool of BIAs in Adult Teams who can also undertake DoLS assessments continues to grow, as planned. A new cohort of 6 staff is commencing the next university course, and a short course for lapsed BIAs is also being arranged. The Intelligence, Strategy and Prioritisation (ISP) Team have been asked if they can report monthly on the % of DoH prioritised cases which are authorised within 21 days, so the effectiveness of the measures to address the risk can be better understood.	**Target risk rating**: Medium / Significant **Anticipated date of review/attainment of the target risk rating:** March 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance from the Assessment & Support Planning Division. Established business processes and staff training to respond to Community DoLS. Exploring option of outsourcing part of back log of assessments.	O&S - None. IA Review 2015/16: Deprivation of Liberty.

APPENDIX A

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10	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme (including setting a medium / long term balanced budget). Lead: Chief Executive Owner: Angela Probert / Steve Powell Risk reduced.	Medium / Significant	**Lead Director comment** The following key activities have been undertaken: Implementation of the Future Council Programme (of which Kerslake is an important sub-set): • Each of the sub programmes has a project plan, risk register and functioning governance arrangements in the form of a sub programme board. Existing sub programmes relating to One Team, Outward Looking Partnerships, Local Leadership and Operating Model are being closed; with activity, risks and outstanding issues being formally returned to business as usual in May /June 2016. • Risks and issues are being debated / mitigated at each sub programme level, and escalated to the CLT Performance Board if mitigation is not possible at that level. • The Future Council Programme budget has been identified and is being supplemented with funding from the Department for Communities and Local Government. This means that funding is secure for at least the next two years, and additional capacity can be sought to strengthen our work and ensure that implementation is swifter. • The business plan / budget 2016+ has been approved. • The budget includes reserves to support the implementation of the budget. Financial support is being provided for a number of the large budget programmes, such as Health and Social Care Integration, Adults Transformation, Reduce, Reuse Recycle etc.	**Target risk rating***:* Low / High **Anticipated date of attainment of the target risk rating:** Ongoing - review April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Planned activities to further mitigate this risk: • There will be a report to the Birmingham Independent Improvement Panel in autumn 2016. • There will be close monitoring of the delivery of the Business Plan and Budget (including reports through directorate management teams to the CLT Performance Board, as well as to Cabinet), with a particular focus on effective project management and the resolution of delivery difficulties and, if necessary, the adoption of appropriate mitigation strategies. • That the organisation delivers the business plan and budget 2016 +.	O&S - A Future Council Working Group was set up in July 2015 to facilitate cross-party overview of, and engagement with, the FC Programme. The group includes the five O&S chairs. The Corporate Resources O&S Committee and Neighbourhood & Community Services O&S Committee completed work on reviewing governance arrangements at district level, including the Neighbourhood Challenge. The Corporate Resources O&S Committee received an update on the FC Programme at its September 2015 meeting. The former Governance, Resources and Customer Services O&S Committee continue to oversee the development of the programme and this was discussed at its April 2015 meeting. There is a Member Development Prog in place and the Corporate Resources O&S Committee received an update on the

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				• The Kerslake actions are a sub set of the programme and delivery is being monitored on a monthly basis. Monitoring of the Kerslake actions demonstrates significant delivery. As well as being monitored internally, the report was shared with the Birmingham Independent Improvement Panel every month. For the small number of Kerslake actions that are not on track, effort is being made to mitigate that and progress change at pace. In May 2016 there were 105 Kerslake actions delivered out of 134. The ones that are still outstanding generally relate to partnership working, East Birmingham and the development of a council-wide operating model. • A Gap report was provided for the Birmingham Independent Improvement Panel and the Council is implementing activity to close the gaps highlighted. • The Birmingham Independent Improvement Panel will return in the autumn for their next assessment. • The Future Council Programme Board has been subsumed into the monthly CLT Performance Board		work completed to date at its July 2015 meeting. A further update will be brought to that committee. IA Review 2015/16: Customer Service Contract Centre Dashboard.
12	2	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. Lead: Strategic Director, Place Directorate Owner: Mashuq Ally	Medium / Significant	**Lead Director comment** Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. Legal Services are advising on high risk EAs. Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this	**Target risk rating:** Medium / Significant **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and	O&S - None. IA Reviews 2014/15: Corporate Review, other work at request of Mashuq Ally re ethnicity monitoring. IA Review 2016/17: Audit planned to review divisional management arrangements, including review of management of the corporate risk.

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				guidance should help improve the content and standard of EAs submitted for approval. The Equality Analysis Toolkit is available to Directorates to undertake EAs for all new Policies and Procedures. Advice and support on completion of the EA is provided from the Equalities, Community Safety and Cohesion Service (ECS&CS) and Legal Services. Guidance on undertaking consultation has been updated and is available on Inline and this is now aligned with the EA process. Over 700 staff ranging from GR5 through to JNC have been trained on the EA Toolkit and on undertaking an EA. Corporate consultation and EAs have been undertaken on all relevant corporate savings. Directorates will continue to undertake consultation and EAs for individual initiatives where appropriate. This process is overseen by the Directorate Equality Champions. Directorate DMTs will monitor progress on the EAs alongside other performance related issues which are then reported to the CLT Performance Board. A robust approach exists for savings proposals. Corporate Consultation, EAs and all associated consultation are aligned, with emphasis on feedback from the protected groups. All EAs and consultation are tracked corporately. A cross directorate steering group chaired by the Service Lead for Equalities, Community Safety and Cohesion has been tasked to oversee compliance to this agenda. The Service Lead for Equalities, Community Safety and Cohesion provides regular update on progress with the EAs to the Corporate Governance Team.	reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	

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13	28	a) Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources, including taking the necessary actions to avoid legal challenge. b) Failure to deliver the necessary actions to implement the savings programme. Lead: Lead: Strategic Director, Finance & Legal Owner: Steve Powell Risk reworded	Medium / Significant Significant / High	**Lead Director comment** Projections of resources are updated on a regular basis in the light of announcements made by the Government. This is assisted by liaison with the DCLG, LGA, IFS and other authorities to ensure that up-to-date intelligence is used. Councils now have the opportunity to benefit from multi-year settlement figures published by DCLG, giving much greater certainty on the future financial position. The Council's Long-Term Financial Plan, approved at the City Council meeting on 1 March 2016, set out a financial strategy for delivering a balanced budget over a ten-year period, linked to the Council's strategic priorities. This included a significant level of contingency funding as a mitigation against delivery difficulties. The Council's business planning process includes appropriate assessments of the equalities impacts of new proposals, and arrangements for the necessary consultation processes. Regular advice is provided by Legal Services and Equalities officers in this regard. The monitoring of the revenue budget, including the savings programme, will be reported monthly via directorate management teams to the CLT Performance Board. This has a multi-year perspective. There will be a particular focus on problem resolution and the identification of appropriate mitigating actions where necessary. This is a new, enhanced process, being implemented in 2016/17 to complement the continuation of the reporting to Cabinet. Resources have been identified to provide additional capacity / expertise to facilitate the implementation of the savings programme and the associated organisational change. The Council's on-going financial position is updated on a regular basis, and is linked to the monitoring process.	**Target risk ratings:** a) Low / Low b) Medium / High **Anticipated date of attainment of the target risk rating:** On-going. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comments also an Internal Audit review.	O&S - The subject of reduction in government grants has arisen in general terms at the Corporate Resources O&S Committee in discussions with the Leader and Deputy Leader regarding the budget. There will be a report to the Corporate Resources O&S Committee in the Autumn to provide an update on the in-year monitoring position. IA Reviews 2014/15: FCRs, Accounting for VAT and Fixed Assets - several areas. IA Review 2015/16: Management and monitoring arrangements for delivery of the Council Savings Plan. IA Review 2016/17: Savings Plan - Progress.

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14	52	Inadequate or ineffective corporate control of non-core IT spend as a result of insufficient in-house IT expertise within Directorates to ensure software / systems changes are adequately specified, that their implementation is adequately managed and that changes are adequately coordinated across the organisation to maximise the benefit to the Council. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Medium / Significant	**Lead Director comment** The review of Service Birmingham (SB) has emphasised that SB has an expert role and a duty to BCC to fulfil this role. This includes ensuring BCC make the right choices of software / systems and avoiding duplication of spending. The Council has in place governance to approve project spend to ensure that it aligns with key design principles however the emergence of the new ICT & D Strategy will change and improve how this governance and control currently works. In addition: • A seven year plan for changes to the management and governance of ICT is in place (subject to review and consultation) supported by the appointed critical friend when required. • The ICT &D Strategy is led by the interim Enterprise Architect appointed to support the Councils FCP. • Three posts to support the ICF and the ICT &D Strategy have been advertised and will provide some additional resource whilst the final FOM is being developed.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** November 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Governance structure in place and planned actions.	O&S - Completed the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). A progress report on implementation of the recommendations was considered at the April 2016 meeting of the Corporate Resources O&S Committee. IA Review 2015/16: IT Project Governance. IA Review 2016/17: IT Project Governance F/Up.
15	32	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 radical reductions in future revenue operating costs. Lead: Strategic Director, Major Projects Owner: Peter Jones	Significant / Medium	**Lead Director comment** Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate. • The Corporate Landlord Service has cleared, decommissioned and sold Tamebridge House. Accommodation changes across Directorates are being dealt with including freeing up space to accommodate	**Target risk rating:** Medium / Low **Anticipated date of attainment of the target risk rating:** April 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance as detailed in Lead Director comment.	O&S -None. IA Review 2014/15: Corporate review of management of Asset Strategy.

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				the Call Centre, and Service Birmingham staff have been relocated from B1. Further 're-stacking' is underway to assist occupants improve their working practices and utilisation of the office space available. • 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, etc. • The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will potentially be further rationalisation of the Central Administration Buildings portfolio.		
16	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Significant / Medium	**Lead Director comment** Service Birmingham on behalf of the Council: • Have updated the Councils firewalls and introduced Intrusion Prevention Services (IPS) as part of the firewall implementation. This means that 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 (DDoS) 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. • Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. **Source(s) of assurance regarding progress with mitigating the risk:** • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • BCC is in the process of resubmitting its PSN application. The initial application has led to a changed interpretation by the PSNA of the Independent Health Checks findings. As a result some risks are now deemed higher and SB and BCC are taking actions to remove these risks (associated with certain severs). • Service Birmingham, on behalf of the Council, are constantly monitoring the information security landscape with solution providers to	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). IA Reviews 2014/15: Cyber Risk & Firewalls. IA Review 2015/16: Web Page Security.

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				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. The Annual Security statement has been delayed awaiting results of the 2016/17 PSN submission. The annual health check has been carried out and the result are being analysed by SB and BCC, overall the ICT security environment has improved. The health check identified some areas that need resolution. Where these are reliant on BCC decision, application owners were contacted w/c 18/01/ 2016, and appropriate application security controls have been put in place to mitigate against highlighted risks.	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.	
17	55	Ineffective Corporate Risk Marker IT solution. Lead: Strategic Director, Change & Support Services Owner: Chris Gibbs	Significant / Medium	**Lead Director comment** The Corporate Risk Marker solution in SAP CRM system is defective and the data harmonisation to service areas is not working as specified, Whilst a more long term solution is investigated as part of the updating of the Councils e-forms package, an interim solution is being investigated to see if the data warehouse held within the Councils Audit Division can offer the required functionality to enable this risk to be at least partially mitigated.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** May 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. Interim manual process currently in place. Monitoring the use of the IT system by Corporate Safety Services.	O&S - None. IA - None.

Corporate Risk Register Update for Audit Committee July 2016

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18	37	Failure to adequately identify the costs and benefits of different service delivery options arising from Service Reviews to enable them to be fully and accurately modelled and ensure they are feasible and the changes proposed can be delivered, before the decision to move forward is made. Failure to fully implement the decisions taken to change BCC policy and service delivery to enable delivery of expected benefits / efficiency gains. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Medium / Medium	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs and benefits as part of the formulation and evaluation of options in the consideration of the business case. The ADs of Finance will provide support on key projects based on their area of expertise. Those developing new service delivery options need to evaluate the full circumstances on a case-by-case basis, seeking proper advice where necessary, in order to identify the implications of the change in service delivery model. This will include assessing what will be left behind in BCC (e.g. fixed overheads, income targets etc.) as well as ensuring that all of the costs and income of the new model are taken into account - including those which are not applicable to a local authority model of delivery (e.g. taxation), together with some sensitivity and risk analysis. This needs to be done before any commitments are given. The need to evaluate the full circumstances for each delivery option requires a proportionality to it, and due regard for the need for calculated assumptions in order to avoid over-engineering financial modelling based on projected costs. The risk to the transferred service is the possible future loss of the Council as a customer and the risk to the Council is the loss of services provided to the transferred service as a customer, if the transferred service obtains these same services from another provider. These risks need to be managed by the corporate commissioning hub with peer reviews undertaken by Thematic Centres of Excellence and approval via Cabinet.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to EMCB, notes and actions from Corporate Commissioning Board agenda. Dialogue with directorate lead commissioners. Finance to be involved in commissioning reviews. Additional resources to support commissioning have been recruited (internally) to support the commissioning approach. Commissioning Toolkit in place. Risk will be managed on a case by case basis through proper use of the Toolkit, and through reviews supported by the Assistant Directors of Finance. A checklist developed by AD Finance (Strategy) will continue to be used to ensure proper evaluation and appraisal of decision making reports. Corporate Commissioning Board will provide the governance for new commissioning strategies. CPS believes that given the challenges encountered in supporting alternative delivery models, and the innovative approaches required, the risk remains at Medium / Medium (target met). Only when we have examples of alternative delivery models being successfully implemented should this risk be removed.	O&S - None. IA Reviews 2014/15: Acivico reviews, Museum Management Arrangements, Golf Management Arrangements, Efficiency Agenda and Change Management. IA Reviews 2015/16: Acivico Deferred Services, Governance Review, Acivico Contract Monitoring, Procurement Contracts - Engagement of Individuals and Acivico - Recruitment & Selection Concerns. IA Reviews 2016/17: Acivico Contract Monitoring - Overall delivery of Contract and Contracts & Procurement Summary Report 2015/16.

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					Mitigations detailed above are now in place with commissioning checklists to CCB ensuring that appropriate resources are in place to manage risk in implementing alternative service delivery models.	
19	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement. Lead: Strategic Director, Place Directorate Owner: Chris Jordan	Medium / Medium	**Lead Director comment** The Improvement Panel have assessed progress in relation to the specific prescriptions made on localisation through the independent Lord Kerslake report and commitments made against this in the Council's Improvement Plan in September 2015 and January 2016. The feedback from this has been positive. In particular all direct recommendations have been actioned including the transfer of delegations away from district committees and the delineation of a new role for district committees. Services are now accountable to cabinet portfolios and management. The remit for district committees around neighbourhood challenge and community planning has been embedded effectively. Policy guidance for this was agreed by cabinet in July 2015 and development undertaken with members in five sessions over July to October, with delivery of outcomes currently live within 2016/17. Delivery against this has been performance managed through the Future Council Local Leadership sub programme board meeting fortnightly. This has now moved to business as usual. The next phase of local leadership / political governance will be shaped by the Leader, on the back of various papers and discussions. This is expected to emerge imminently and will be a priority for officers to secure appropriate resource focus to ensure successful delivery on the programme.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating**: Attained. **Source(s) of assurance regarding progress with mitigating the risk**: Management assurance as detailed in Lead Director comment - Scrutiny Report in January 2013, bi-monthly reports on progress of the secondary work streams. Ongoing review of risk through the Future Council political governance sub programme.	O&S - The Corporate Resources O&S Committee has completed a piece of work around district and ward arrangements. This includes a review of arrangements put in place in May 2015 and options for the future development of devolution. The Neighbourhood & Community Services O&S Committee completed a review of the Neighbourhood Challenge. Recommendations were made to the Leader. IA Reviews 2014/15: Housing Governance Arrangements and watching brief - quarterly progress updates from Place. IA 2015/16: Watching brief - quarterly progress updates from Place.

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20	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements. Lead: Strategic Director, Change & Support Services Owner: Dawn Hewins	Medium / Medium	**Lead Director comment** Whilst significant work has been undertaken to achieve harmonisation of terms and conditions there remains a number of issues with potential risks that are currently being addressed. The bulk of unpaid allowances claims have been successfully managed by Legal Services on a case by case basis, with outstanding claims being considered and managed by Legal Services on the same basis.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern. There is a Governance Board monitoring any potential high risk claims.	O&S - None. IA Review 2014/15: Review on overtime -in conjunction with HR. IA Review 2015/16: Overtime F/Up.
21	35	Current information technology equipment not being refreshed / up dated to maximise use and obtain full benefit from utilising technology. Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz Risk nominated for deletion.	Low / Significant	**Lead Director comment** Cabinet agreed in May 2013 that the ICT desktop refresh should be managed centrally as part of the Windows 7 migration project. The reasons for centralisation included; ensuring BCCs desktop estate remains fit for purpose and capable of running supported software operating systems, maintaining the integrity and security of Councils network and ensuring compliance with BCCs five year refresh strategy. The advantages of a centrally controlled programme of desktop refresh include; reducing the requirement for Service Birmingham (SB) refresh projects, providing business areas with an opportunity to update asset management records and ensure best usage of their assets, introducing the potential to reduce contractual charges from SB by better management of the ICT estate. Proactively reviewing future business needs and specifying hardware requirements.	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** BCC achieved Public Services Network Certification to 29 April 2016. Any potential risk has been considerably reduced by decommissioning Windows XP devices on the BCC network. A few hundred public network Windows XP devices remain on the BCC estate. However, these are disabled from the BCC network and undergoing a phased replacement as part of the ongoing BAU desktop refresh process.	O&S - None. IA Review 2014/15: Windows 7. IA Reviews 2015/16: Asset Management & SAP GRC, Agile Working 2016, IT Asset Management and SAP Roadmap. IA Review 2016/17: Lost & Stolen IT Equipment.

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				A planned programme of desktop refresh also supports BCC's agility agenda, and enables future financial planning, as payment for desktop refresh is via prudential borrowing rechargeable to directorates over a period of 5 years. In February 2015 Cabinet approval for the 2015/16 programme of refresh was granted. In May 2015 the corporately managed desktop refresh programme, managed by the ICF team & carried out by SB commenced. Partnership working is required to ensure the desktop refresh programme is successful. SB need to consistently achieve the agreed minimum of 120 replacements per month and directorates need to provide their future ICT business requirements to the ICF on a quarterly basis. These risks are being managed by the ICF via monthly meetings with SB and directorate PICTOG groups. From May 2015 to December 2015 SB achieved refresh for 760 desktop devices, with a further 228 replacements for directorates scheduled between January and March 2016, bringing the total achieved for 2015/16 to 988 devices. This shortfall is due to a May start date for the programme and will be addressed by rolling over the shortfall to the 2016/17 programme. Desktop Refresh progressing as a business as usual process. Updates are provided as a regular agenda item at PICTOG's, and progress updates provided to ICT Corporate Strategy Group.	The IT Helpline database has been locked-down to prevent ad hoc purchases outside of the desktop refresh programme. To cover exceptional circumstances users can complete a business case form and send it to the ICF Service Review mailbox for review, approval, rejection. There is now a defined BAU exceptions process. The only exception to this is when the request is for non-standard ICT devices. Non-standard requests will continue to follow the non-standard process. This has been agreed with SB. As this is now business as usual propose that the risk is closed	

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22	54	Risk of fines from HMRC for Directorates employing long term consultants. Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz	Low / Significant	**Lead Director comment** A revised process has been implemented for the engagement of off payroll 'Individuals' in April 2016 which has resulted in a significant increase in compliance. HR and CPS are working collaboratively to ensure compliance by cascading the process through DMT's and monitoring engagements centrally within the CPS compliance team. No orders are released until the manager has completed all the required approval documentation.	**Target risk rating**: Low / Medium **Anticipated date of attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** The new process has been widely publicised to all Directorates and is available on People Solutions as well as Voyager. It has been embedded in to the procedures within Payroll and CPS. In addition CPS are in the process of arranging information events for officers to attend in order to gain further advice, guidance and support in order to minimise the Council's exposure to risk. The Director of HR has taken over ownership of interims & off payroll individuals.	O&S - None. IA Review 2014/15: Audit carried out in quarter 3.
23	59	Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs). Lead: Strategic Director, Major Projects Owners: Alastair Gibbons, Adrian Phillips & Dawn Hewins Risk nominated for deletion.	Low / Medium	**Lead Director comment** The ICO wrote to BCC in December 2014 re an issue with timely responses to SARs. An action plan has subsequently been submitted / accepted by the ICO, and monthly reporting to the ICO will continue until April 2016. In respect of Children's reporting, there has been a great improvement with SAR and FOI delays. In March 2016 only one SAR was outstanding due to the particular circumstance of the case Adults continue to monitor SARs and FOIs with reports produced for the Caldicott Guardian. No concerns have been reported Corporately, the Head of Corporate Information Management is reporting that the ICO is happy with progress and are no longer monitoring the Council.	**Target risk rating**: Low / Low **Anticipated date of review/attainment of the target risk rating:** April 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance from HR and Children's Services.	O&S - None. IA Review 2014/15: SARs. IA Reviews 2015/16: SARs F/Ups. IA Review 2016/17: HR SARs.

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Removed Risks:

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
13	Succeed economically	Failure to progress with delivering against the Birmingham Prospectus.	Risk flagged for deletion by Development & Culture Directorate, this risk should now be picked up at the Directorate level due both to the progress of individual projects and the engagement which is now in place with public and private sector partners.	November 2008
10	Achieving excellence	Property Utilisation of Central Admin Buildings – failure to take full advantage of the opportunities arising from the Working for the Future (WFTF) Business Transformation Programme.	Merged with risk 3 regarding WFTF cross portfolio buildings, at request of Business Transformation Steering Group.	July 2008
7	Achieving excellence	Reduction in non-core budgets e.g. Working Neighbourhoods Fund Comprehensive Spending Review, grant regimes etc.	Risk flagged for deletion by Corporate Director of Resources. Will remain on Directorate Risk Register.	July 2008
19	Achieving excellence	Failure to deliver on the Executive Management Team's (EMT's) key supporting outcomes.	Risk flagged for deletion by Effectively Managed Corporate Business group – EMT's key supporting outcomes were identified in June 07 and are fully embedded within the Directorate Business Plans and monitoring of the Performance Plan. It is a duplication to have this as an issue in the Corporate Risk Register.	January 2008
22	Achieving excellence	Failure to meet the code of connection for Government Connect.	Risk flagged for deletion by the Corporate Director of Resources. Will be managed via ICF Risk Register.	March 2010
8	Succeed economically	Failure to co-ordinate / control all of BCC's Accountable Body roles and responsibilities.	This has improved and will continue to be monitored via the Resources risk register.	July 2010
14a	Succeed economically	Failure to progress the Highways Public Finance Initiative (PFI).	The PFI contract was signed on 7 May 2010.	July 2010
15	Achieving excellence	Failure to achieve the efficiencies agreed in the budget round and plan for the efficiencies necessary for the next two years.	This has been incorporated into risk 28.	July 2010
16	Achieving excellence	Lack of compliance with and appropriateness of, corporate people management policies & procedures and national regulations.	The policies & procedures have been updated on People Solutions with the Excellence in People Management system, and compliance with them is covered in risk 18.	July 2010

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
17	Achieving excellence	Failure to act on the sustainability agenda.	This has been included by Directorates as business as usual now. It will continue to be monitored via the Development risk register.	July 2010
21	Succeed economically	Adverse impact of the economic downturn.	This has been included by Directorates as business as usual now. It will continue to be monitored via Directorate and Department risk registers.	July 2010
3	Succeed economically	Failure to progress the Cross portfolio elements of the Working For The Future (WFTF) programme.	This has been flagged for deletion by the Corporate Director of Resources as progress is being made on this and where there are problems with buildings this is covered in new risk 32 added November 2010.	November 2010
1c	Achieving excellence	Failure to implement the pay and grading review for **all** non-schools staff.	The pay and grading structure for has now been fully implemented and this is no longer a risk.	March 2011
6a	Achieving excellence	Failure to adopt the new working practices implemented through the EPM programme which in turn will impact on benefit delivery.	The new working practices have become business as usual. Benefits delivery is being monitored as part of risk 4.	March 2011
6b	Achieving excellence	Failure to achieve the IT infrastructure which allows all employees to access information electronically.	A full business case is being developed to achieve this. This is no longer a corporate risk and will be monitored through the Corporate Resources Directorate risk register.	March 2011
24	Achieving excellence	Failure to manage pay progression effectively.	The pay progression framework has been applied to Council managed staff and is no longer a risk. The pay progression issue regarding schools staff is covered in risk 1a and will also be monitored through CYP&F Directorate risk register.	March 2011
12	Make a contribution	Failure to engage and inform communities around the Council's approach to improving community cohesion.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and it has been delegated to the Strategic Directorate of Corporate Resources' risk register for continued management.	July 2011
18	Achieving excellence	Failure to implement recommendations made to improve internal control in the External Audit Annual Letter and by Internal Audit to help prevent fraud and error.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
29	Achieving excellence	Failure to achieve progress against local priorities as stated in the Sustainable Community Strategy.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011

Corporate Risk Register Update for Audit Committee July 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
27	Succeed economically	Failure to put in place action plans and strategies to fully mitigate the effects of reductions in area based grants.	Merged with risk 28 "Need to meet the massive spending reductions over the three years from 2011/12" at request of Strategic Director of Corporate Resources.	December 2011
11	Enjoy a High Quality of Life	Failure to deliver Achieving Excellence with Communities.	The target risk level has been met. Cabinet Committee Achieving Excellence with Communities receives progress reports. The risk has been delegated to Homes and Neighbourhoods directorate to manage.	March 2012
33	Succeed Economically	Failure to adapt to Climate Change.	The target risk level has been exceeded and long term planning has now been put in place. This risk will continue to be managed by directorates.	March 2012
9	Public Service Excellence	Need for capacity to react promptly to and manage the significant workforce changes occurring.	The level of risk has reduced to the target level.	July 2012
31	Public Service Excellence	HRA Finance Reforms.	This is no longer a risk - the funding has been agreed and is included in the 2012/13 budgets.	July 2012
34	Enjoy a High Quality of Life	Independent Care Sector Fees.	The target level of risk has been attained. The risk will continue to be monitored by the Adults & Communities Directorate.	July 2012
38	Public Service Excellence	Failure to maintain infrastructure assets including responsibilities regarding protected listed buildings.	Merged with risk 32 and changed to: Shortage of capital and failure to take appropriate long term decisions to manage the property asset portfolio (by disposals and reinvestment of capital in the residual estate); including responsibilities regarding protected listed buildings, leading to escalating costs.	November 2012
39	Public Service Excellence	Shortfall in resources compared to projections from 2013/14 onwards as a result of the new system of local retention of business rates.	Merged with risk 28 and changed to: Need to plan appropriately for the on-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14, particularly the significant potential reduction in resources from 2014/15, and avoid legal challenge.	November 2012
53	Public Service Excellence	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Stay Safe	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
36	Public Service Excellence	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013
49	Succeed Economically	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Enjoy a High Quality of Life	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Public Service Excellence	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 “On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14”.	March 2014
1d	Public Service Excellence	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Be Healthy	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Be Healthy	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014
20	A Prosperous City	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	A Prosperous City	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014

APPENDIX A

Corporate Risk Register Update for Audit Committee July 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
51	A Prosperous City	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	A Fair City	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	A Prosperous City	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	A Prosperous City	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	A Prosperous City	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	A Prosperous City	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015
2015/16.10a	A Prosperous City	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	A Fair City	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Assistant Director – Financial Services**
Date of Decision:	**26 July 2016**
Subject:	**STATEMENT OF ACCOUNTS 2015/16**
Wards affected: All	

1 Purpose

1.1 This report presents the Council's draft Statement of Accounts for 2015/16 to Members for information. The Statement has been passed to the Council's external auditors, Grant Thornton, who have started their final accounts audit. The audited Statement of Accounts will be presented to Audit Committee for approval at the completion of the audit.

2 Decisions recommended:

2.1 To receive the draft Statement of Accounts for 2015/16.

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

Contact Officer: Martin Stevens
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Contact Officer: Sarah Dunlavey
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3 Compliance Issues:

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

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which is based on International Financial Reporting Standards (IFRS).

3.4 Will decisions be carried out within existing finances and resources?
Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The issues raised in this report are largely of a technical financial nature. The Statement of Accounts includes the Annual Governance Statement, which has previously been considered by this committee.

4 Relevant background/chronology of key events:

4.1 The 2015/16 accounts were signed on 22 June 2016 in advance of the statutory deadline of 30 June 2016.

4.2 The Council’s accounts for 2015/16 were opened for public inspection on 23 June 2016 for a period of 30 working days, ending on 3 August 2016. Questions on or objections to the accounts may be raised with the external auditor during the period of public inspection.

4.3 The audit of the accounts is expected to be completed by the end of August 2016.

4.4 Appendix 1 to this report is the published draft Statement of Accounts for 2015/16. The document includes the core statements and supplementary statements required by accounting standards and also contains an overview of the Council’s performance for 2015/16.

Signature:

Assistant Director – Financial Services: ……………………………………………

Dated: ……………………………………………………………………………

Birmingham City Council

Draft Statement of Accounts 2015/16
Subject to Audit

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Narrative Report

1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council for the period from 1 April 2015 to 31 March 2016. The financial statements have been prepared in accordance with the 2015/16 Code of Practice on Local Authority Accounting (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

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

2 Background to 2015/16

2.1 Councillor Sir Albert Bore announced in October 2015 that he would be stepping down from his role as Leader of the Council. Sir Albert had been Leader of the Council from 2012 to 2015 and previously for the period 1999 to 2004. Councillor John Clancy was subsequently elected as the new Leader of the Council.

2.2 The Birmingham Independent Improvement Panel, appointed following the publication of the report on the governance and organisational capabilities of the Council by Lord Kerslake, has provided a number of progress reports to the Secretary of State. In its latest report the improvement panel has recommended to the Secretary of State that it should stand back for a period so that the political and managerial leadership of the Council can be given the chance to work together and demonstrate the Council's ability to deliver the change and improvement needed. The panel will return in the autumn to undertake a further review of progress.

2.3 The Council, in response to the challenges faced through the changing role of local government, the impact of public expenditure constraint and the recommendations from external review, has initiated and developed its Future Council Programme. The Future Council Programme is reviewing and, where necessary, redesigning all aspects of the Council, including:

- How the Council operates in order to deliver its vision and outcomes through:
  - The future services offered;
  - The people, technology and information available;
  - The best processes and structures used for delivery;
- The aptitudes and abilities that will be required of staff employed and the working culture;
- How members operate in their local areas and become local leaders in their communities;
- How the Council approaches working with partner organisations and local communities;
- How the Council provides the right support services in order to ensure those at the front line are able to deliver services successfully.

2.4 The Council has a vision for how the City will look in 2020 which is based on the fundamental ideals of prosperity, fairness and democracy and within those ideals to have:

- A strong economy;
- Safety and opportunity for all children;
- A great future for young people;
- Thriving local communities;
- A healthy and happy City; and
- A modern Council.

2.5 The Council has continued to face extraordinary financial pressures with savings required for 2015/16 of £105m giving an accumulated total savings of £560m to date. Further savings are required in 2016/17 of nearly £90m with an additional savings projection of around £160m by 2020. These savings are in addition to the pressures on services arising from demographic changes and increasing and changing needs.

3 Major Developments

3.1 Despite the financial pressures faced and the demands placed on it as a result of the continued requirement to deliver high quality services whilst undertaking a major review of its operations, the Council has continued to take on new responsibilities and manage large redevelopments of the City. Details of the major activities are set out below.

Better Care Fund

3.2 The Better Care Fund (BCF) was a policy initiative announced by government in June 2013 aimed at driving the transformation of local services to ensure that people receive better and more integrated care and support.

3.3 The Council endorsed the principles of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local Clinical Commissioning Groups (CCGs) and plans were developed through 2014/15 for implementation from 1 April 2015. The Council was identified as the host for the local BCF.

3.4 Whilst no new money was made available as a result of the introduction of the BCF, there was an opportunity to reallocate resources within the local care and health sectors to make better and more effective use of them. Funding was allocated by the Department of Health through money made available to CCGs and funding made available to the Council through the Disabled Facilities and Community Capital Grants were also included in the BCF. The total resource for the pooled fund for 2015/16 was £95.7m.

Public Health Transfer

3.5 From 1 October 2015, the Council took over responsibility from NHS England for planning and paying for public health services for babies and children up to 5 years old. These services include health visiting and the Family Nurse Partnership Programme. In 2015/16, the Council received additional grant of £11.2m from the Department of Health in respect of these services.

Grand Central

3.6 Through the Council's working arrangements with Network Rail, substantial improvements have been made to New Street Station through the New Street Gateway and Grand Central projects.

3.7 Grand Central opened to the public on 24 September 2015. Subsequently the Council disposed of its head leasehold interests in the shopping centre.

National Exhibition Centre

3.8 In March 2014, the Council announced its intention to seek offers for The National Exhibition Centre Ltd (NEC Ltd) with the vision of securing a private investor who could allow the business to take full advantage of its growth opportunities and enable it to move to the next stage of development.

3.9 On 16 January 2015, the Council announced that it had entered into a binding agreement to sell NEC Ltd to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The sale was finalised on 1 May 2015.

Paradise Redevelopment

3.10 The Council has entered into a partnership arrangement with Britel Fund Trustees Limited to develop Paradise Circus in the centre of the city through the provision of a mix of offices, shops, leisure and cultural facilities together with civic amenities, a hotel and new public realm.

3.11 The Council and Britel Funds Trustees Limited have formed a joint company to manage the redevelopment of the area.

4 The Financial Statements

4.1 The pages which follow contain the Council's Financial Statements for the year ended 31 March 2016, with comparative figures for the previous financial year, and comprise:

The Main Financial Statements

4.2 Movement in Reserves Statement (MiRS) – provides a reconciliation of the movement in year on the different reserves of the Council and how the balance of resources generated or used in the year links to the statutory requirements for raising Council Tax or for setting rents for Council dwellings.

The Surplus/(Deficit) on the Provision of Services shows the true economic cost of providing the Council's services, more detail of which is shown in the Comprehensive Income and Expenditure Statement.

4.3 The Comprehensive Income and Expenditure Statement (CIES) – provides the accounting cost in year of delivering services, in a specified format, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or from rents for Council dwellings. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. Details of the Council's management accounts have been provided in the Financial Outturn Report to Cabinet on 17 May 2016, which is summarised in paragraph 6 below.

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

The 2015/16 CIES shows a reduction of £11.5m, from £881.3m to £869.8m, in the net cost of services compared to 2014/15, which is primarily as a result of:

- The continued reduction in net expenditure on services due to the tightening of public expenditure;
- The impact of local authority maintained schools converting to academies;
- A reduction in the in-year contribution to the provision required for equal pay settlements.

  offset by
- A payment to Network Rail for its share of the receipt from the disposal of its head lease interest in the shopping centre in the Grand Central redevelopment.

4.4 Balance Sheet – shows the value of assets and liabilities recognised by the Council at 31 March 2016 and the level of reserves, split between usable, that is those that may be used to provide services, and unusable, that is those that may not be used to provide services. Unusable reserves include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets were to be sold, and reserves that hold timing differences in charging to the Comprehensive Income and Expenditure Statement.

The net liability has reduced by £433.0m to £795.0m, mainly as a result of:

- The reduction in the net liability on defined benefit pension schemes of £205.9m, mainly as a result of an increase in the discount factor for determining scheme liabilities. Further details are set out in Notes 9, 10 and 11. The Council is addressing the liability in accordance with external requirements and its accounting policies, over both the medium and longer term;
- The increase of £75.5m in the carrying value of Property, Plant and Equipment following the latest valuation of non-current assets, mainly as a result of the increase in the building cost factors used in determining valuations at Depreciated Replacement Cost;
- A reduction in provisions set aside by the Council, mainly related to Equal Pay, following settlement of claims;

  offset by
- A net reduction in investments, particularly short term investments, following the disposal of NEC Ltd.

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

Supplementary Statements

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

4.7 Collection Fund – records the transactions in respect of the collection and distribution of National Non Domestic Rates and Council Tax, for which the Council acts as agent and has a statutory obligation to publish.

Group Accounts

4.8 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). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest is considered material. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries
Acivico Limited
Birmingham Museums Trust
Innovation Birmingham Limited
National Exhibition Centre Limited Group (including NEC Finance Plc) to 1 May 2015
National Exhibition Centre (Developments) Plc
Performances Birmingham Limited
PETPS (Birmingham) Limited

Associates
Birmingham Airport Holdings Limited
Paradise Circus General Partner Limited
Service Birmingham Limited

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

5 Accountable Body Roles

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

6 Summary of the Council's Financial Performance for the year ended 31 March 2016

6.1 Revenue Expenditure

6.1.1 The Council's revenue and capital budgets were allocated between three directorates with some other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 17 May 2016.

6.1.2 Following net appropriations to reserves of £5.1m the directorate net overspend was £10.0m. The table below gives a summary of the General Fund year-end outturn variation by directorate.

Directorate	**Outturn Variation over/(under) spend**	**Year-end Transfers to/(from) reserves**			**In Year Variation (to)/from balances**
		Grant	**Other**	**Total**	
	£m	**£m**	**£m**	**£m**	**£m**
People Directorate	15.956	(1.400)	(4.509)	(5.909)	10.047
Economy Directorate	(8.261)	4.273	4.131	8.404	0.143
Place Directorate	(2.794)	1.290	1.323	2.613	(0.181)
Total Directorate Revenue Expenditure	**4.901**	**4.163**	**0.945**	**5.108**	**10.009**
Less Transfer from School Balances			4.605		
Directorate Total Excluding School Balances			**5.550**		

6.1.3 There was a net underspending of £4.4m on corporate accounts, after appropriations to reserves, and of £8.4m in policy contingency. It has been agreed to use £10.0m of this net underspend to address the year end pressure in People Directorate.

6.2 Capital Expenditure

6.2.1 Total reported expenditure on directorate capital schemes in 2015/16 was £458.0m (2014/15: £400.8m), compared to the revised capital budget of £563.1m (2014/15: £485.9m). The reported variance of £105.1m was mainly as a result of delays in expenditure on a number of capital schemes (£113.5m). Details of this slippage are given in the Council's Capital Outturn report for 2015/16. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

Directorate	**Capital Revised Budget**	**Capital Outturn**	**Capital Variance**
	£m	**£m**	**£m**
People Directorate	102.9	85.0	(17.9)
Economy Directorate	300.3	238.0	(62.3)
Place Directorate	159.9	135.0	(24.9)
Total Directorate Capital Expenditure	**563.1**	**458.0**	**(105.1)**
PFI and Finance Lease Assets		28.6	
Total Capital Expenditure		**486.6**	

6.3 Material Assets Acquired

6.3.1 During the year, work was completed on the Grand Central redevelopment which was subsequently disposed of. In addition a number of major projects have progressed, including Paradise Circus redevelopment, the purchase of land for the Indoor Wholesale Market, the creation of additional school places at a number of schools and housing improvements and redevelopments.

6.4 Capital Financing

6.4.1 The financing arrangements in respect of capital expenditure in 2015/16 are summarised below:

Financing Method	**£m**
Borrowing	209.1
Government Grants	138.6
Other Grants and Contributions	13.8
Use of Capital Receipts – HRA	22.2
Use of Revenue Resources – HRA	67.9
Use of Revenue Resources – General Fund	6.4
Total Directorate Capital Financing	**458.0**
PFI and Finance Leases	28.6
Total Capital Financing	**486.6**

6.4.2 During the financial year ended 31 March 2016, the Council took £54.9m of long term loans. The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

6.4.3 Further details of the Council's financial liabilities are given in Notes 39 and 40 to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are given in Notes 20 to 23 to these financial statements.

6.5 Service Concession Arrangements and Similar Contracts

6.5.1 The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways services to deliver improvements in infrastructure and future service delivery. As a result of the schemes, the Council has a future liability to the end of the contracts of £457.0m as at 31 March 2016.

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

6.6 Pension Liabilities

6.6.1 For the Local Government Pension Scheme, there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,087.7m at 31 March 2016. Whilst the figure is substantial it should be noted that:

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

- There is a 20 year recovery plan which has been built into the Council's financial plans;

- It is not unique to Birmingham City 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 10 and 11 to these financial statements.

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

6.7 Provisions

Equal Pay

6.7.1 The Council has continued to receive claims in respect of the Equal Pay Act 1970 up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received up to 29 February 2016.

National Non Domestic Rates

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

6.7.3 The Council, as Billing Authority, is required to make a provision for this liability. The financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2016 but which remained unsettled. However, regulations permit local authorities to spread an element of the impact over a period of 5 years up to 2017/18. A share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority.

6.8 Reserves

6.8.1 The Council maintains two types of reserves:

- Usable reserves – where the Council sets aside specific amounts for future policy purposes or to cover contingencies
- Unusable reserves, which are not available to support the provision of services and include:
  - Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
  - Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

6.8.2 Details of the reserves are set out below.

	31 March 2015 £m	31 March 2016 £m
Usable Reserves	626.0	895.7
Unusable Reserves	(1,854.0)	(1,690.7)
Total	**(1,228.0)**	**(795.0)**

6.8.3 Usable reserves have increased by £269.7m, mainly as a result of the increase in the Capital Receipts Reserve following the disposals of the NEC Ltd. and Grand Central.

6.8.4 The deficit on unusable reserves has reduced by £163.3m as a result of the reductions in pension liabilities and the Equal Pay Back Pay Account and the increase in asset revaluations, detailed in paragraph 4.4 above. The reduction in unusable reserves has been partly offset by the change in the Capital Adjustment Account, which reflects the technical accounting adjustments from the disposal of the NEC Ltd. and Grand Central.

6.8.5 Taking the usable and unusable reserves together the Council's net liabilities at 31 March 2016 have reduced by £433.0m to £795.0m.

6.8.6 The Council has included financial assumptions for resourcing these liabilities in its long term financial plan, Business Plan 2016+.

7 Changes in Accounting Policy – Future Years

7.1 From 1 April 2016, the Council will be required to adopt the CIPFA *Code of Practice on Transport Infrastructure Assets*. The Code designates the current infrastructure assets that are currently recorded in Property, Plant and Equipment as Highways Network Asset, which will be identified separately within the Balance Sheet.

7.2 The Council will be required to value its Highways Network Asset on the basis of depreciated replacement cost rather than depreciated historic cost as at present. This is likely to result in a significant increase in the carrying value of the Highways Network Asset.

7.3 The Council will not be required to apply retrospective adjustments to the accounts but will treat the change in value as a revaluation gain in year.

8 Future Revenue and Capital Expenditure Plans

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

8.2 The Council has a strong track record in the effective management of savings programmes, with a clear process for decision-making and monitoring delivery. There is active engagement by both Members and senior officers, including monthly meetings chaired by the Deputy Leader as well as formal revenue budget monitoring reports considered by Cabinet.

8.3 However, the Council recognised that the need to make such large on-going savings required a different approach to be adopted. From 2015/16 the Future Council Programme was implemented, which continues to involve fundamental reviews of the role of the Council in meeting the needs of its customers and embraces joint working both across Council directorates and with partners.

8.4 The Council's key capital priorities are addressed through the three-year capital programme, totalling £966m in the Business Plan 2016+. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £272m of Government grants and other external contributions. The programme also incorporates borrowing proposals set out in the approved Enterprise Zone Investment Plan, the cost of which will be supported from projected business rates growth in the Enterprise Zone area.

8.5 Full details of the 2016/17 Revenue and Capital Budgets can be found within the Business Plan and Budget 2016+ approved by Council on 1 March 2016, via www.birmingham.gov.uk.

CORE FINANCIAL STATEMENTS 2015/16

Movement in Reserves Statement

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.

	General Fund Balance	Earmarked General Fund Reserves	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	**£m**
Balance at 31 March 2014	**85.8**	**348.3**	**4.4**	**27.5**	**44.6**	**142.4**	**653.0**	**(1,379.0)**	**(726.0)**
Movement in Reserves during 2014/15									
Surplus/(Deficit) on the provision of services	(136.4)		65.4				**(71.0)**		**(71.0)**
Other Comprehensive Income and Expenditure							**-**	(430.9)	**(430.9)**
Total Comprehensive Income and Expenditure	**(136.4)**	**-**	**65.4**	**-**	**-**	**-**	**(71.0)**	**(430.9)**	**(501.9)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	187.6	-	(65.3)	(11.2)	(28.8)	(38.3)	**44.0**	(44.1)	**(0.1)**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**51.2**	**-**	**0.1**	**(11.2)**	**(28.8)**	**(38.3)**	**(27.0)**	**(475.0)**	**(502.0)**
Transfers to/(from) Earmarked Reserves (Note 7)	0.8	(0.8)					**-**		**-**
Increase/Decrease in 2014/15	52.0	(0.8)	0.1	(11.2)	(28.8)	(38.3)	**(27.0)**	(475.0)	**(502.0)**
Balance at 31 March 2015	**137.8**	**347.5**	**4.5**	**16.3**	**15.8**	**104.1**	**626.0**	**(1,854.0)**	**(1,228.0)**
Movement in Reserves during 2015/16									
Surplus/(Deficit) on the provision of services	(144.1)		59.0				**(85.1)**		**(85.1)**
Other Comprehensive Income and Expenditure							**-**	518.1	**518.1**
Total Comprehensive Income and Expenditure	**(144.1)**	**-**	**59.0**	**-**	**-**	**-**	**(85.1)**	**518.1**	**433.0**
Adjustments between accounting basis and funding basis under regulations (Note 6)	159.0		(58.9)	295.8	(10.0)	(31.1)	**354.8**	(354.8)	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**14.9**	**-**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**163.3**	**433.0**
Transfers to/(from) Earmarked Reserves (Note 7)	(41.8)	41.8					**-**		**-**
Increase/Decrease in 2015/16	**(26.9)**	**41.8**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**163.3**	**433.0**
Balance at 31 March 2016	**110.9**	**389.3**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,690.7)**	**(795.0)**

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.

2014/15 Gross Expenditure	2014/15 Gross Income	2014/15 Net Expenditure		Note	2015/16 Gross Expenditure	2015/16 Gross Income	2015/16 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
20.1	(13.5)	6.6	Central services to the public		21.0	(12.2)	8.8
185.1	(33.1)	152.0	Cultural and Related Services		115.8	(32.5)	83.3
105.1	(44.2)	60.9	Environmental and Regulatory Services		105.1	(27.2)	77.9
68.3	(62.1)	6.2	Planning Services		64.4	(56.3)	8.1
1,178.7	(900.1)	278.6	Children's and Education Services		1,107.6	(862.0)	245.6
135.2	(33.1)	102.1	Highways and Transport Services		245.4	(44.5)	200.9
182.8	(289.1)	(106.3)	Housing Revenue Account (Local Authority Housing)		186.7	(293.3)	(106.6)
641.2	(571.1)	70.1	Housing General Fund		641.5	(586.9)	54.6
374.2	(96.7)	277.5	Adult Social Care		369.7	(101.5)	268.2
73.4	(81.9)	(8.5)	Public Health		85.5	(76.6)	8.9
(2.1)	(2.2)	(4.3)	Corporate and Democratic Core		1.3	(2.8)	(1.5)
46.4	-	46.4	Non Distributed Costs		24.6	-	24.6
3,008.4	**(2,127.1)**	**881.3**	**Total Continuing Operations excluding acquired services**		**2,968.6**	**(2,095.8)**	**872.8**
			Acquired Services				
-	-	-	Public Health - 0 to 5 years		8.3	(11.3)	(3.0)
3,008.4	**(2,127.1)**	**881.3**	**Total Cost Of Services**		**2,976.9**	**(2,107.1)**	**869.8**
137.5		137.5	Other Operating Expenditure	13	104.2		104.2
324.7	(86.5)	238.2	Financing and Investment Income and Expenditure	14	315.1	(91.8)	223.3
5.4	(1,191.4)	(1,186.0)	Taxation and Non-Specific Grant Income	15	16.6	(1,128.7)	(1,112.1)
		71.0	**(Surplus) / Deficit on Provision of Services**				**85.2**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(116.1)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	20, 21, 22			(330.9)
		124.2	Impairment losses on non-current assets charged to the revaluation reserve	20, 21, 22			73.3
		423.1	Remeasurement of the net defined benefit liability	11			(261.2)
		431.2					**(518.8)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.4)	(Surplus) / deficit on revaluation of available for sale financial assets				0.7
		(0.4)					**0.7**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		-	Gain/(loss) adjustment on disposal of available for sale financial assets				(0.1)
		-					**(0.1)**
		430.8	**Other Comprehensive (Income) / Expenditure**				**(518.2)**
		501.8	**Total Comprehensive (Income) / Expenditure**				**(433.0)**

<u>Exceptional Items</u>
Included within Highways and Transport Services is a payment of £72.9m to Network Rail in respect of its share of the receipt from the disposal of its head lease interest in the shopping centre in the Grand Central development. Further details are provided in Note 12.

Balance Sheet

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

31 March 2015 £m		Note	31 March 2016 £m
4,761.3	Property, Plant and Equipment	20	4,836.8
246.1	Heritage Assets	22	249.8
10.8	Investment Property	21	10.0
28.4	Intangible Assets	23	25.6
32.1	Long Term Investments	24	98.5
77.6	Long Term Debtors	25	75.0
5,156.3	**Total Long Term Assets**		**5,295.7**
266.2	Short Term Investments	26	58.8
68.8	Assets Held for Sale	27	4.2
1.0	Inventories		1.2
311.7	Short Term Debtors	28	288.0
37.7	Cash and Cash Equivalents	29	66.4
685.4	**Total Current Assets**		**418.6**
(22.1)	Cash and Cash Equivalents	29	(34.5)
(603.8)	Short Term Borrowing	34	(430.5)
(342.7)	Short Term Creditors	30	(323.4)
(332.5)	Provisions	32	(283.3)
(1,301.1)	**Total Current Liabilities**		**(1,071.7)**
(13.6)	Long Term Creditors	31	(1.8)
(265.5)	Provisions	32	(68.4)
(2,668.0)	Long Term Borrowing	34	(2,771.9)
(527.9)	Other Long Term Liabilities	39	(507.8)
(2,293.6)	Net liability on defined benefit pension scheme	11	(2,087.7)
(5,768.6)	**Total Long Term Liabilities**		**(5,437.6)**
(1,228.0)	**Net Assets**		**(795.0)**
626.0	Usable Reserves	8	895.7
(1,854.0)	Unusable Reserves	9	(1,690.7)
(1,228.0)	**Total Reserves**		**(795.0)**

Cash Flow Statement

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

2014/15		Note	2015/16
£m			£m
(71.0)	Net Surplus/(Deficit) on the provision of services		(85.2)
358.7	Adjustments to net Surplus/Deficit on the provision of services for non cash movements	38	411.0
(122.6)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(478.3)
165.1	**Net cash flows from Operating Activities**		**(152.5)**
(260.5)	Investing Activities	36	254.1
91.6	Financing Activities	37	(85.3)
(3.8)	**Net increase/(decrease) in cash and cash equivalents**		**16.3**
19.4	Cash and cash equivalents at the beginning of the reporting period		15.6
15.6	**Cash and cash equivalents at the end of the reporting period**	**29**	**31.9**

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Accounts and Audit Regulations 2015, requires the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

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

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Cost line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

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

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

Post-Employment Benefits

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

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

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

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

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

The Local Government 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 3.2% 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 services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure as part of Non Distributed Costs;
- 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 that does not result in the creation of a non-current asset, has been charged as expenditure to the relevant service 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

Services, support services 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 6, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied or expected to be satisfied, the grant or contribution is credited to the relevant service line (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 those activities that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure of Services.

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 the accruals basis, provided it is probable 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.

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

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

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

- infrastructure assets – depreciated historical cost;
- community assets and assets under construction – historical cost;
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- all other assets – current value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the Balance Sheet date.

Where a material item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are evaluated separately.

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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 – 3 to 51 years;
- Infrastructure – 10 to 40 years.

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic 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.

Depreciation is calculated on the following bases:

- Dwellings and other buildings and components therein – straight line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant, furniture and equipment – straight line allocation over their useful lives;
- Infrastructure – straight line allocation over their useful lives

Where an item of Property, Plant and Equipment asset has major components whose cost and life are significant in relation to the total cost and life of the item, the components are depreciated separately.

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less the cost of sale. Where there is a subsequent decrease to fair 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 fair 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. The Council currently has no surplus assets that would fall within the classification as defined in the Code.

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2015/16, 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 defined as assets which 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 historic 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 community assets within Property, Plant and Equipment.

Where historic 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. In some cases, reliable valuation information is not available due to a lack of comparable market data and the diverse nature of the individual items, and where the historical cost information cannot be obtained, the asset has been excluded from the balance sheet.

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

The Council considers that the 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 xi. Property, Plant and Equipment in this note on Accounting Policies).

xiii. Intangible Assets

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

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

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

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

xiv. Investment Properties

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

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

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

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

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

xv. Service Concession Arrangements

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

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

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

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

- Fair value of the services procured during the year – debited to the relevant service 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 – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

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

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

xvi. Leases

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

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

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

The Council as Lessee

<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.

Lease payments are apportioned between:

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

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

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

<u>Operating Leases</u>

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

The Council as Lessor

<u>Finance Leases</u>

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other

Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal, matched by a lease (long term debtor) asset in the Balance Sheet

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

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

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

The Code includes transitional provisions where non-current assets are recognised for the first time as a result of a change in accounting policy arising from a revision to accounting for schools. Under the transitional rules, non-current assets recognised for the first time should be accounted for at their 1 April 2014 valuation at “deemed cost” with the credit entry recognised in the Capital Adjustment Account. The Code does not recognise the need for identification of any historic valuation movements prior to 1 April 2014.

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

xix. Financial Instruments

Financial Liabilities

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Assets

Available-for-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at cost. Where a fair value of those assets that do not form part of the Group Accounts can be determined, the carrying value of the asset is adjusted to the fair value. Where a fair value cannot be measured reliably, the asset is carried at cost less any impairment losses. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in 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. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the latest price. This valuation method does not comply with IAS 2, *Inventories* which requires stocks to be valued at the lower of cost and net realisable value. However the effect of this is not considered material to the accounts. For trading activities the amount recognised in the appropriate revenue accounts for contract work in progress is the payments received and receivable, less related costs. The amount at which contract work in progress is included in the balance sheet is cost plus any attributable profit, less any foreseeable losses.

xxii. 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 service line 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 service.

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 service 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.

xxiii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service 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 appropriated back into the General Fund Balance through the Movement in Reserves Statement 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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

xxiv. Council Tax and National Non-Domestic 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 National Non-Domestic Rates. The Fund's key features relevant to the accounting for Council Tax and National Non-Domestic 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 National Non-Domestic 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 2015/16.

Comprehensive Income and Expenditure Statement

The Council Tax and National Non-Domestic 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 National Non-Domestic 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 National Non-Domestic Rates in respect of recovery action.

Balance Sheet

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

Cash Flow Statement

The Council's Cash Flow Statement includes in 'Operating Activities' cash flows only its own share of the Council Tax and National Non-Domestic Rates collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of National Non-Domestic 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.

xxv. Business Improvement Districts

In accordance with the provisions of the Business Improvement District Regulations 2004 a ballot of local businesses within specific areas of the City has resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the National Non Domestic 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.

xxvi. Events After the Reporting Period

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

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

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

xxvii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

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

Note 2
Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

Impact of the adoption of new standards on the 2015/16 financial statements

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

- Amendments to IAS 19, Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Amendment to IFRS 11, Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16, Property, Plant and Equipment (Clarification of Acceptable Methods of Depreciation)
- Amendment to IAS 38, Intangible Assets (Clarification of Acceptable Methods of Amortisation)
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Annual Improvements to IFRSs 2012 – 2014 Cycle

An assessment of the updates to the accounting standards indicates that the changes are not expected to have a material impact on the Council's Statement of Accounts.

Note 3
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
The Council is continuing 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 Business Plan 2016+, and is meeting these budget challenges by developing multi-year savings plans and through the generation of capital receipts. The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has general fund balances and can redesignate earmarked reserves to meet the shortfall or it can delay the timing of MRP contributions and equal pay settlements. On this basis, the Council considers that it can continue to meet its liabilities as they fall due and the financial statements have been prepared on a going concern basis.

The Council also considers that the savings plans are robust and that there is no indication that the Council might need to impair its assets as a result of a need to close facilities and reduce levels of service provision.

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

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

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

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

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

Whilst the Council is required to report the transactions of local authority maintained schools within its entity financial statements, it has not included details of employees of Voluntary Aided and Foundation Trust schools in Note 45, Officers' Remuneration as they are employed by the relevant governing body.

The table below shows the number and type of schools within Birmingham at 31 March 2016.

Type of School	Primary	Secondary	Nursery	Special	Pupil Referral Unit	**Total**
Community	139	14	27	21	1	**202**
Voluntary Controlled	7	-	-	-	-	**7**
Voluntary Aided	56	9	-	-	-	**65**
Foundation Trust	9	8	-	3	-	**20**
Academy (formerly Council school)	88	44	-	3	-	**135**
Academy (not formerly Council school)	1	11	-	-	-	**12**
Total	**300**	**86**	**27**	**27**	**1**	**441**

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

Specialist Assets

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

Leases

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

The Better Care Fund

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

In accounting for the pooled resources:

- 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 of 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, resources are not included in the Council's financial statements. Two of the largest schemes are identified below:

- 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.

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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment Valuations	Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following DCLG guidance, with a desk top review in the intervening years. The valuation of specialist assets using Depreciated Replacement Cost includes the use of building cost factors. For those assets not valued in year, updated building factors have been applied to estimate carrying values at 31 March.	For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the carrying value of these assets by £7.7m, with a corresponding increase in the level of unusable reserves.
Heritage Asset Valuations (Museums' and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum and Libraries Collections, the Council has used the associated insurance valuations as the most `reasonable measure of value of the assets.	If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.3m with a corresponding adjustment in the Revaluation Reserve.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Investment Property and Surplus Assets Valuations	When the fair value of Investment Properties and Surplus Assets cannot be measured based on quoted prices in active markets (that is, Level 1 inputs) their fair value is measured using Level 2 inputs, quoted prices for similar assets in active markets at the balance sheet date. Where possible the inputs are based on observable data, but where this is not possible, judgement is required to establish fair value. These judgements include consideration of risk and uncertainty, and changes in these assumptions could affect the fair value of the Council's assets. Where Level 1 inputs are not available the Council uses the expertise of Birmingham Property Services within the Council to provide valuations completed in accordance with the methodologies set out in the professional standards of the Royal Institution of Chartered Surveyors	The Council uses a variety of techniques when valuing its investment and surplus properties under IFRS 13. The unobservable inputs used in the fair value measurement include management assumptions on future commercial potential, occupancy levels etc. Significant changes in any of the unobservable inputs could result in a variation in the fair value measurement of these assets. An increase of 1% in the valuation of investment properties and surplus assets would increase the carrying values on the balance sheet by £0.2m.
Measure of financial instrument fair values	The Council has assessed the fair value of some of its financial investments by using the present value of future cashflows discounted at market rates.	Given the complex nature of the underlying assumptions and the uncertainty regarding future market rates, the fair value is the best estimate that can be made. A 1% change in long term interest rates would result in a £2.2m change in the fair value of the Council's financial investments.
Long term obligations under, for example, PFI schemes	For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates.	The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £29.2m in 2016/17, and a further £410m over the remaining lives of the contracts.
Equal Pay	The Council has included a provision of £310.1m 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 historic 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 £3.1m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
NNDR Appeals	An estimate of the impact of NNDR appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims.	An increase of 1% in the average level of settlement would have the effect of £6.4m 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 2015/16	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 11 of these financial statements

Note 5
Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Strategic Director – Finance & Legal on 22 June 2016. 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 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Transfer of Academy Schools

Academy Schools are not accounted for within the Council's financial statements. Where a school transfers to Academy status, it is deemed to be disposed of within the financial statements for nil consideration. Between 1 April 2016 and 31 May 2016, 3 schools, with assets having a net book value of £10.2m, have transferred to Academy School Trust status. A further 18 schools, with assets having a net book value of £131.3m have announced their proposals to transfer to Academy School Trust status.

Transfer of Council Services

On 24 May 2016, the Council announced its intention to consider a move to a new model of delivery of children's services through a voluntary trust. The Council is in the third year of its agreed improvement plan and the move to a voluntary trust is the next possible step on the plan. A formal decision will need to be taken by Cabinet in due course.

Future Resource Allocations

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council's Business Plan 2016+ 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 2016/17.

Combined Authority

The West Midlands Combined Authority was established by statutory instrument under the Local Democracy, Economic Development and Construction Act 2009 on 17 June 2016. The Combined Authority consists of the seven local metropolitan authorities in the West Midlands as constituent members, a number of local authorities as non-constituent members and three Local Enterprise Partnerships.

A directly elected mayor from May 2017 will act as Chair to the Combined Authority. The Mayor and the Combined Authority will have clear designated powers.

Sutton Coldfield Parish Council

The creation of the Sutton Coldfield Parish Council will enable new ways of delivering local services and for people to engage in their local community. Elections to the Parish Council were held on 5 May 2016.

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

Note 6
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 into and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year. However, the balance is not available to be applied to funding Housing Revenue Account (HRA) services.

Housing Revenue Account Balance

The Housing Revenue Account 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 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.

2015/16	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	53.1	2.2	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account)	(0.3)	-	-	-	-
Council Tax and NDR (transfers to/from the Collection Fund)	9.1	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(4.7)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(250.4)	(11.3)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	744.8	55.1	-	-	36.8
Total Adjustments to Revenue Resources	**551.6**	**46.0**	**-**	**-**	**36.8**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(554.9)	(27.2)	579.8	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	4.6	-	(4.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	201.4	-	(201.4)	-	-
Reclassification of grants originally treated as capital grants	-	-	-	-	-
Share of capital receipts received due to third parties	72.9	-	(72.9)	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.6	-	(6.6)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(37.8)	-	37.8	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(114.4)	(19.8)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(8.8)	(20.1)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(392.6)**	**(104.9)**	**294.3**	**37.8**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(22.2)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(9.5)	-	-
Capital Receipts arising from investment restructuring	-	-	21.0	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(47.8)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(67.2)
Cash payments in relation to deferred capital receipts	-	-	12.0	-	-
Other	-	-	0.2	-	(0.7)
Total Adjustments to Capital Resources	**-**	**-**	**1.5**	**(47.8)**	**(67.9)**
Total Adjustments	**159.0**	**(58.9)**	**295.8**	**(10.0)**	**(31.1)**

2014/15	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)	63.1	2.8	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account)	33.6	-	-	-	-
Council Tax and NDR (transfers to/from the Collection Fund)	(6.0)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	0.9	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(67.5)	(7.9)	-	-	-
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)	265.9	56.3	-	-	43.4
Total Adjustments to Revenue Resources	**290.0**	**51.2**	**-**	**-**	**43.4**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(34.0)	(36.1)	57.9	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	2.7	-	(2.7)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	37.6	-	(37.6)	-	-
Reclassification of grants originally treated as capital grants	9.6	-	-	-	(9.6)
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	5.7	-	(5.7)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(39.3)	-	39.3	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(109.9)	(11.7)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(14.1)	(29.4)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(102.4)**	**(116.5)**	**11.9**	**39.3**	**(9.6)**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(17.5)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(7.7)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(68.1)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(72.1)
Cash payments in relation to deferred capital receipts	-	-	2.1	-	-
Other	-	-	-	-	-
Total Adjustments to Capital Resources	**-**	**-**	**(23.1)**	**(68.1)**	**(72.1)**
Total Adjustments	**187.6**	**(65.3)**	**(11.2)**	**(28.8)**	**(38.3)**

Note 7
Transfers To/(From) Earmarked Reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance at 31 March 2014	Transfers Out 2014/15	Transfers In 2014/15	**Balance at 31 March 2015**	Transfers Out 2015/16	Transfers In 2015/16	**Balance at 31 March 2016**
	£m	£m	£m	**£m**	£m	£m	**£m**
Earmarked Reserves	**181.2**	(120.7)	76.3	**136.8**	(83.1)	134.2	**187.9**
Grant Related Reserves	**96.1**	(41.5)	90.1	**144.7**	(61.0)	54.2	**137.9**
Schools Reserves	**71.0**	(13.1)	8.1	**66.0**	(5.4)	2.9	**63.5**
General Fund Balances	**348.3**	**(175.3)**	**174.5**	**347.5**	**(149.5)**	**191.3**	**389.3**

Further details of the usable balances available to the Council, including earmarked reserves, are shown in Note 8 of these financial statements.

Note 8
Usable Reserves

Details of the major reserves held by the Council are detailed below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 6.

Usable Reserves	**Balance at 31 March 2015**	Transfers out 2015/16	Transfers In 2015/16	**Balance at 31 March 2016**
	£m	£m	£m	**£m**
Insurance Fund	12.3	(3.9)	-	8.4
Highways PFI Earmarked Reserve	8.1	(3.2)	0.3	5.2
Sums set aside to finance Capital Expenditure	51.1	(30.4)	60.1	80.8
Treasury Management Reserve	6.9	(1.6)	0.9	6.2
Adult Education Reserve	0.5	-	-	0.5
Supporting People	2.0	(0.6)	-	1.4
Housing Benefit Subsidy Reserve	6.7	(2.6)	4.7	8.8
Local Welfare Reserve	6.6	(6.6)	0.8	0.8
Cyclical Maintenance Reserve	0.8	-	2.6	3.4
Equipment Renewal Reserve	1.2	-	3.0	4.2
Support to the Business Plan	20.5	(16.2)	16.9	21.2
Management Capacity for Change	8.5	(8.5)	6.9	6.9
Education Capitalisation Reserve	6.0	(6.0)	-	-
Other Earmarked Reserves	5.6	(3.5)	38.0	40.1
Total Earmarked Reserves	**136.8**	**(83.1)**	**134.2**	**187.9**

Section 256 Grant from the NHS	17.9	(9.6)	6.5	14.8
Public Health	17.1	(12.0)	2.1	7.2
Troubled Families Grant	3.5	(3.5)	-	-
Highways PFI Grant	57.6	(13.5)	30.9	75.0
Weekly Collection Support Scheme	9.1	(9.1)	0.3	0.3
Non-Schools' DSG	12.6	(5.4)	-	7.2
Other Grant Reserves	26.9	(7.9)	14.4	33.4
Total Revenue Grant Reserves	**144.7**	**(61.0)**	**54.2**	**137.9**
Schools' Balances	66.0	(5.4)	2.9	63.5
General Fund Balances	137.8	(31.3)	4.4	110.9
Housing Revenue Account	4.5	-	0.1	4.6
HRA Major Repairs Reserve	15.8	(47.8)	37.8	5.8
Capital Receipts Reserve	16.2	(317.1)	613.0	312.1
Capital Grants Unapplied	104.2	(67.9)	36.7	73.0
Total Usable Reserves	**626.0**	**(613.6)**	**883.3**	**895.7**

Details of the major usable reserves are set out below.

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

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

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

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

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

Supporting People Reserve – has arisen from the earlier delivery of savings from the mainstream Supporting People programme and has been earmarked to enable future savings targets to be delivered.

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

Local Welfare Reserve – has been earmarked for the continuation of the scheme into 2016/17 when Central Government funding ceases.

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

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

Support to the Business Plan Reserve – has been earmarked to support one off efficiencies and delivery of savings in future years as identified in the Business Plan 2016+.

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

Education Capitalisation Reserve – had been earmarked to support the revised methodology on financial management in schools in 2015/16.

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.

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.

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment.

General Fund Balances – reflect the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events. General Fund Balances have reduced by £26.9m to £110.9m, which primarily results from the planned utilisation of funds set aside for organisational transition, used to deliver the transformational change of the future Council.

Housing Revenue Account – the HRA is a statutory account, ringfenced from the rest of Council funds, so that rents charged to tenants in respect of dwellings cannot be subsidised from Council Tax. The balances on the HRA reflect the accumulated surpluses of income over expenditure.

HRA Major Repairs Reserve – the Council is required by The Accounts and Audit Regulations 2015 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by 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 9
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 2015 £m		31 March 2016 £m
743.8	Revaluation Reserve	975.6
0.8	Available for Sale Financial Instruments Reserve	0.2
271.4	Capital Adjustment Account	(241.5)
(29.7)	Financial Instruments Adjustment Account	(27.9)
(2,293.6)	Pensions Reserve	(2,087.7)
50.1	Deferred Capital Receipts Reserve	30.0
(13.8)	Collection Fund Adjustment Account	(22.9)
(561.3)	Equal Pay Back Pay Account	(299.6)
(21.6)	Accumulated Absences Account	(16.9)
(1,854.0)	**Total Unusable Reserves**	**(1,690.7)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant, Furniture and Equipment, and Heritage Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2014/15			2015/16	
£m	£m		£m	£m
	797.8	**Balance at 1 April**		**743.8**
217.7		Upward revaluation of assets	410.9	
(101.6)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(80.1)	
(124.2)		Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of services	(73.3)	
	(8.1)	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		257.5
(9.4)		Difference between fair value depreciation and historical cost depreciation	(8.3)	
(25.7)		Accumulated gains on assets sold or scrapped	(17.4)	
(10.8)		Adjustment for Transfer of land to Investment Property	-	
	(45.9)	Amount written off to the Capital Adjustment Account		(25.7)
	743.8	**Balance at 31 March**		**975.6**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as 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 contains accumulated gains where recognised on Donated Assets that have yet to be consumed by the Council.

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

2014/15 £m	2014/15 £m		2015/16 £m	2015/16 £m
	295.6	**Balance at 1 April**		**271.4**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(10.7)		Charges for depreciation and impairment of non current assets	15.3	
(180.8)		Revaluation losses on Property, Plant and Equipment	(199.4)	
(25.7)		Amortisation and impairment of intangible assets	(7.5)	
(21.7)		Impairment of Capital Debtors/Grants	(2.4)	
(53.2)		Revenue expenditure funded from capital under statute	(105.7)	
(140.4)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(617.8)	
	(432.5)			(917.5)
	45.9	Adjusting amounts written out of the Revaluation Reserve		25.7
	(386.6)	Net written out amount of the cost of non-current assets consumed in the year		(891.8)
		Capital financing applied in the year:		
17.7		Use of the Capital Receipts Reserve to finance new capital expenditure	22.2	
68.2		Use of the Major Repairs Reserve to finance new capital expenditure	47.8	
45.5		Capital grants and contributions credited to the CIES that have been applied to capital financing	89.5	
72.1		Application of grants to capital financing from the Capital Grants Unapplied Account	67.2	
7.7		Application of capital receipts to repay debt	9.5	
121.6		Provision for the financing of capital investment charged against the General Fund and HRA balances	134.2	
43.5		Capital expenditure charged against the General Fund and HRA balances	28.9	
	376.3			399.3
	(13.5)	Amortisation of Investments debited to the CIES		-
	-	Generation of capital receipt from investment restructuring		(21.0)
	-	Financing of capital grant repayment		0.7
	(0.4)	Repayment of long term debtors		(0.1)
	271.4	**Balance at 31 March**		**(241.5)**

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 per 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.

2014/15			2015/16	
£m	£m		£m	£m
	(31.3)	**Balance at 1 April**		**(29.7)**
-		Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	
1.6		Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	1.8	
	1.6	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		1.8
	(29.7)	**Balance at 31 March**		**(27.9)**

Pensions Reserve

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

The net decrease in the pension liability in 2015/16 is mainly due to the increase in the rate for discounting scheme liabilities, from 3.2% to 3.6%, which is based on high-quality corporate bond yields, resulting in a decrease in the present value of liabilities.

2014/15 £m		2015/16 £m
(1,804.6)	**Balance at 1 April**	**(2,293.6)**
(423.1)	Remeasurement of the net defined benefit liability	261.2
(169.5)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(165.0)
103.6	Employer's pensions contributions and direct payments to retirees payable in the year	109.7
(2,293.6)	**Balance at 31 March**	**(2,087.7)**

Deferred Capital Receipts

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.

2014/15 £m		2015/16 £m
40.3	**Balance at 1 April**	**50.1**
(0.4)	Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations	(10.4)
12.2	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2.3
(2.0)	Transfer to the Capital Receipts Reserve upon receipt of cash	(12.0)
50.1	**Balance at 31 March**	**30.0**

Collection Fund Adjustment Account

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

2014/15 £m		2015/16 £m
(19.8)	**Balance at 1 April**	**(13.8)**
6.0	Amount by which Council Tax/NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/NNDR income calculated for the year in accordance with statutory requirements	(9.1)
(13.8)	**Balance at 31 March**	**(22.9)**

Available for Sale Financial Instruments Reserve

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

2014/15 £m		2015/16 £m
0.4	**Balance at 1 April**	**0.8**
0.6	Upward revaluation of investments	-
(0.2)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	(0.7)
0.8		**0.1**
-	Accumulated gains/(losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	0.1
0.8	**Balance at 31 March**	**0.2**

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.

2014/15 £m		2015/16 £m
(636.7)	**Balance at 1 April**	**(561.3)**
(7.9)	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	58.7
83.3	Cash settlements paid in the year	203.0
75.4	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	261.7
(561.3)	**Balance at 31 March**	**(299.6)**

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.

2014/15 £m		2015/16 £m
(20.8)	**Balance at 1 April**	**(21.6)**
(0.9)	Settlement or cancellation of accrual made at the end of the preceding year	4.7
0.1	Amounts accrued at the end of the current year	-
(0.8)	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	4.7
(21.6)	**Balance at 31 March**	**(16.9)**

Note 10
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 2015/16, the Council paid £37.0m (2014/15: £36.9m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 14.1% from April to August and 16.48% from September to March (2014/15: 14.1%) of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2016/17 financial year are estimated to be £39.3m on the basis of employer contributions of 16.48%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' Pension Scheme. These costs are accounted for on a defined benefit basis and detailed in Note 11.

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

NHS Pension Scheme

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

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

In 2015/16, the Council paid £0.2m (2014/15: £0.2m) to the NHS Pension Scheme in respect of employees' retirement benefits, representing 14.3% (2014/15: 14.0%) of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2016/17 financial year are estimated to be £0.2m on the basis of an employer contribution rate of 14.3%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS Pension Scheme. These costs are accounted for on a defined benefit basis and detailed in Note 11.

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

Note 11
Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund office at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's contribution rate of 12.9% was set for the Council for 2015/16 (2014/15: 12.3%), plus an additional payment of £41.9m (2014/15: £40.1m) to fund the pension deficit in respect of past service costs.

- 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 Note 1, Accounting Policies.

Transactions relating to Post-employment benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	89.1	108.1		
past service costs	0.1	-		
effect of curtailments	11.8	7.6		
effect of settlements	(7.7)	(23.1)		
administration expenses	1.3	1.4		
Financing and investment income and expenditure:				
Net interest expense	72.1	69.0	2.8	2.1
Total post employment benefit charged to the (Surplus)/Deficit on the provision of services	**166.7**	**163.0**	**2.8**	**2.1**
Movement in Reserves Statement				
Reversal of net charges made to the Surplus/Deficit for the provision of services for post employment benefits in accordance with the Code	(69.2)	(59.6)	3.3	4.2
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	97.5	103.4		
retirement benefits payable to retirees			**6.1**	**6.3**

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2014/15	2015/16	2014/15	2015/16
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Total post employment benefit charged to the (Surplus)/Deficit on the provision of services	166.7	163.0	2.8	2.1
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	418.5	(264.7)	4.6	3.5
Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement	585.1	(101.7)	7.4	5.6

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Present Value of Liabilities					
- Local Government Pension Scheme	(4,409.9)	(5,149.4)	(4,649.9)	(5,548.6)	(5,284.8)
- Unfunded Teachers' Scheme	(66.3)	(71.8)	(67.9)	(69.3)	(68.5)
Total Present Value of Liabilities	**(4,476.1)**	**(5,221.2)**	**(4,717.8)**	**(5,617.8)**	**(5,353.3)**
Fair Value of Assets in the Local Government Pension Scheme	2,743.3	3,037.5	2,913.2	3,324.2	3,265.6
Surplus/(Deficit) in the scheme					
- Local Government Pension Scheme	(1,666.6)	(2,111.9)	(1,736.7)	(2,224.3)	(2,019.2)
- Unfunded Teachers' Scheme	(66.3)	(71.8)	(67.9)	(69.3)	(68.5)
Net Liability arising from defined benefit obligation	**(1,732.9)**	**(2,183.7)**	**(1,804.6)**	**(2,293.6)**	**(2,087.7)**

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme				Unfunded Teacher Pension Scheme		**Total**	
	Funded		Unfunded					
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m	**2014/15 £m**	**2015/16 £m**
Benefit Obligation at 1 April	4,568.8	5,462.5	81.1	85.9	67.9	69.3	**4,717.8**	**5,617.8**
Current Service Cost	89.1	108.1	-	-	-	-	**89.1**	**108.1**
Interest on Pension Liabilities	198.0	171.9	3.4	2.7	2.8	2.1	**204.2**	**176.7**
Member Contributions	27.9	27.4	-	-	-	-	**27.9**	**27.4**
Past service cost/(gain)	0.1	-	-	-	-	-	**0.1**	**-**
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-	-	-	**-**	**-**
Actuarial (gains)/losses arising from changes in financial assumptions	733.5	(375.6)	7.5	(5.6)	4.6	3.5	**745.6**	**(377.7)**
Experience (gains)/losses on liabilities	-	-	-	-	-	-	**-**	**-**
Curtailments	11.8	7.6	-	-	-	-	**11.8**	**7.6**
Settlements	(7.9)	(26.8)	-	-	-		**(7.9)**	**(26.8)**
Benefits/Transfers paid	(158.8)	(167.5)	(5.9)	(5.9)	(6.1)	(6.3)	**(170.7)**	**(179.7)**
Benefit Obligation at 31 March	**5,462.5**	**5,207.6**	**85.9**	**77.4**	**69.3**	**68.5**	**5,617.8**	**5,353.3**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	Local Government Pension Scheme				Unfunded Teacher Pension Scheme		**Total**	
	Funded		Unfunded					
	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m	2014/15 £m	2015/16 £m	**2014/15 £m**	**2015/16 £m**
Fair Value of Assets at 1 April	2,913.2	3,324.2	-	-	-	-	**2,913.2**	**3,324.2**
Interest on Plan Assets	129.3	105.6	-	-	-	-	**129.3**	**105.6**
Remeasurements (assets)	322.5	(116.4)	-	-	-	-	**322.5**	**(116.4)**
Administration expenses	(1.3)	(1.4)	-	-	-	-	**(1.3)**	**(1.4)**
Settlements	(0.2)	(3.7)	-	-	-	-	**(0.2)**	**(3.7)**
Employer contributions	91.6	97.5	5.9	5.9	6.1	6.3	**103.6**	**109.7**
Member contributions	27.9	27.4	-	-	-	-	**27.9**	**27.4**
Benefits/transfers paid	(158.6)	(167.5)	(5.9)	(5.9)	(6.1)	(6.3)	**(170.8)**	**(179.7)**
Fair Value of Assets at 31 March	**3,324.2**	**3,265.6**	**-**	**-**	**-**	**-**	3,324.2	3,265.6

Local Government Pension Scheme assets comprised

The analysis of the Local Government Pension Scheme assets are set out below.

	31 March 2015				31 March 2016			
	Quoted	Unquoted	Total	Percentage of Total	Quoted	Unquoted	Total	Percentage of Total
	£m	£m	£m	%	£m	£m	£m	%
Equity Instruments:								
UK Quoted	317.1		317.1	9.5%	253.4		253.4	7.8%
UK Unquoted		55.5	55.5	1.7%		49.6	49.6	1.5%
Global Quoted	242.0		242.0	7.3%	363.2		363.2	11.1%
Global Unquoted		345.7	345.7	10.4%		322.0	322.0	9.9%
Europe	258.0		258.0	7.8%	240.3		240.3	7.4%
Japan	72.5		72.5	2.2%	114.9		114.9	3.5%
Pacific Basin	142.6		142.6	4.3%	124.6		124.6	3.8%
North America	255.0		255.0	7.7%	251.7		251.7	7.7%
Emerging Markets	275.2		275.2	8.3%	242.2		242.2	7.4%
Sub-total equity	**1,562.4**	**401.2**	**1,963.6**	**59.1%**	**1,590.3**	**371.6**	**1,961.9**	**60.1%**
Bonds:								
UK Government	261.6		261.6	7.9%		247.5	247.5	7.6%
Other	353.7		353.7	10.6%	191.5	146.2	337.7	10.3%
Sub-total bonds	**615.3**	**-**	**615.3**	**18.5%**	**191.5**	**393.7**	**585.2**	**17.9%**
Property:								
UK	203.8		203.8	6.1%		195.6	195.6	6.0%
Overseas	-		-	-		-	-	-%
Property Funds	86.4		86.4	2.6%		78.0	78.0	2.4%
Sub-total property	**290.2**	**-**	**290.2**	**8.7%**		**273.6**	**273.6**	**8.4%**
Alternatives:								
Commodities	-		-	-	-	-	-	-
Infrastructure	113.0		113.0	3.4%	7.0	95.9	102.9	3.2%
Absolute Return	206.1		206.1	6.2%		171.6	171.6	5.3%
Sub-total Alternatives	**319.1**	**-**	**319.1**	**9.6%**	**7.0**	**267.5**	**274.5**	**8.4%**
Cash:								
Cash Instruments	39.2		39.2	1.2%		121.9	121.9	3.7%
Cash Accounts	96.7		96.7	2.9%		48.5	48.5	1.5%
Sub-total Cash	**135.9**	**-**	**135.9**	**4.1%**		**170.4**	**170.4**	**5.2%**
Total assets	**2,922.9**	**401.2**	**3,324.1**	**100.0%**	**1,788.8**	**1,476.8**	**3,265.6**	**100.0%**

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Barnett Waddingham, 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 2014. The principal assumptions used by the actuary have been:

Assumptions	Local Government Pension Scheme		Discretionary Benefits	
	2014/15	2015/16	2014/15	2015/16
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	23.0	23.0	23.0	23.0
Women (years)	25.6	25.7	25.6	25.7
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	25.2	25.3	n/a	n/a
Women (years)	28.0	28.0	n/a	n/a
Rate of CPI inflation	2.0%	2.0%	2.0%	2.0%
Rate of increase in salaries	3.8%	3.8%	n/a	n/a
Rate of increase in pensions	2.0%	2.0%	2.0%	2.0%
Rate for discounting of scheme liabilities	3.2%	3.6%	3.1%	2.5%

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 analysis 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)	161.5	3.1	7.9
Pension increase assumptions (increase by 0.1%)	81.8	1.5	3.9
Salary increase limited to 1% for further 4 years	(94.7)	(1.8)	(4.5)
Discount scheme liability assumptions (increase by 0.1%)	(91.0)	(1.7)	(4.4)

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 20 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2016 and will set contributions for the period for 1 April 2017 to 31 March 2020.

The Council expects to pay £99.8m of contributions to the scheme in 2016/17 on the basis of an equivalent employer's contribution rate of 13.4%, plus an additional payment of £43.7m to fund the pension deficit in respect of past service costs.

Note 12
Material Items of Income and Expense and Acquired Operations

The substantial improvements to New Street Station have been managed with Network Rail in two elements, namely, New Street Gateway and Grand Central. Grand Central opened to the public on 24 September 2015. During 2015/16, the Council disposed of its head leasehold interest in the shopping centre and the Comprehensive Income and Expenditure Statement includes a payment of £72.9m which is Network Rail's share of the receipt.

From 1 October 2015, the Council took over responsibility from NHS England for planning and paying for public health services for babies and children up to 5 years old. These services include health visiting and the Family Nurse Partnership programme. In 2015/16, the City Council received additional grant of £11.2m from the Department of Health in respect of these services.

Note 13
Other Operating Expenditure

Other Operating Expenditure disclosed in the Comprehensive Income and Expenditure Statement comprises the following:

2014/15		2015/16
£m		£m
0.1	Parish Council Precepts	-
3.8	Enterprise Zone Growth Payment	5.5
54.5	Integrated Transport Authority Levy	51.6
0.3	Environment Agency Levy	0.3
5.7	Payments re: Housing Capital Receipt Pool	6.6
73.1	(Gains)/Losses on the Disposal of non current assets	40.2
137.5	**Total**	**104.2**

Note 14
Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement comprises the following:

2014/15 Gross Expenditure £m	2014/15 Income £m	2014/15 Net £m		2015/16 Gross Expenditure £m	2015/16 Income £m	2015/16 Net £m
185.6	-	185.6	Interest Payable and Similar charges	184.3	-	184.3
74.9	-	74.9	Net Interest on the Net Defined Benefit Liability	71.0	-	71.0
-	-		Administration Expenses - Pensions	-	-	
-	(16.3)	(16.3)	Interest Receivable and similar income	-	(9.9)	(9.9)
-	-	-	Income and expenditure in relation to investment properties and changes in their fair value	-	-	-
64.3	(64.2)	0.1	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	59.8	(61.2)	(1.4)
(0.1)	(6.0)	(6.1)	Other investment income and expenditure	-	(20.7)	(20.7)
324.7	**(86.5)**	**238.2**	**Total**	**315.1**	**(91.8)**	**223.3**

Note 15
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:

2014/15 Gross Expenditure £m	2014/15 Income £m	2014/15 Net £m		2015/16 Gross Expenditure £m	2015/16 Income £m	2015/16 Net £m
-	(261.8)	(261.8)	Council Tax Income - Collection Fund	-	(271.2)	(271.2)
-	(199.7)	(199.7)	NNDR - Collection Fund	-	(203.9)	(203.9)
-	-	-	NNDR - Other	-	-	-
5.4	(7.0)	(1.6)	Share of Collection Fund - Council Tax	-	(3.9)	(3.9)
-	-	-	Share of Collection Fund - NNDR	15.8	(1.8)	14.0
-	(655.0)	(655.0)	Non Ring Fenced Government Grants	-	(544.2)	(544.2)
-	-	-	Capital through Exchange of Assets	-	-	-
-	(67.9)	(67.9)	Capital Grants and Contributions	-	(103.7)	(103.7)
-	-	-	Capital Grants Repaid	0.8	-	0.8
5.4	**(1,191.4)**	**(1,186.0)**	**Total**	**16.6**	**(1,128.7)**	**(1,112.1)**

Further information on grant income received is provided in Note 17.

Note 16
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. In 2015/16, the Council reviewed its trading units to ensure that the trading activities reported continued to meet the criteria detailed above.

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 14, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

2014/15				2015/16		
Turnover £m	Expenditure £m	(Surplus) / deficit £m	**Trading activity**	Turnover £m	Expenditure £m	(Surplus) / deficit £m
(2.4)	2.6	0.2	Catering	-	-	-
(38.9)	37.6	(1.3)	Cityserve (Direct Services)	(40.6)	39.6	(1.0)
(11.0)	10.9	(0.1)	Trade Refuse	(10.3)	8.8	(1.5)
(6.9)	6.9	-	Birmingham Parks and Nurseries	(6.8)	6.7	(0.1)
(1.8)	1.8	-	Birmingham City Laboratories	-	-	-
(1.1)	0.9	(0.2)	Pest Control	(0.7)	0.6	(0.1)
(3.3)	4.6	1.3	Procurement	(4.9)	4.8	(0.1)
(4.5)	5.0	0.5	Schools' Human Resources	(4.3)	5.1	0.8
(1.9)	1.9	-	Central Payroll	(1.9)	2.0	0.1
(1.7)	2.2	0.5	Other Trading Activities	(2.0)	1.6	(0.4)
(73.5)	**74.4**	**0.9**		**(71.5)**	**69.2**	**(2.3)**
			Allocation of Surplus/Deficit on Trading Operations			
(9.3)	10.1	0.8	- consolidated in CIES	(10.3)	9.4	(0.9)
(64.2)	64.3	0.1	- consolidated in Note 14, Financing and Investment Income and Expenditure	(61.2)	59.8	(1.4)
(73.5)	**74.4**	**0.9**		**(71.5)**	**69.2**	**(2.3)**

<u>Details of Trading Activities</u>

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

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

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

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

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

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

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

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

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

Central Payroll
In addition to providing the Council's payroll service, contracts have been won to provide payroll services to academies, further education colleges and other external bodies.

Birmingham City Laboratories
Birmingham City Laboratories transferred to Acivico, a wholly owned subsidiary of the Council, with effect from 1 April 2015.

Catering
Catering transferred to Acivico, a wholly owned subsidiary of the Council with effect from 1 April 2015.

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

Note 17
Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement. The changes introduced in the Local Government Finance Act 2012 mean that the Council now retains a proportion of the National Non-Domestic Rate generated in its area rather than receiving it as a grant from Government.

2014/15		2015/16
£m		£m
	Credited to Taxation and Non Specific Grant Income	
388.1	Revenue Support Grant	280.1
123.7	NNDR Top Up Grant	126.0
16.2	New Homes Bonus Grant	18.8
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
2.4	Troubled Families Grant	5.1
7.8	Housing Benefit Administration Grant	6.3
4.1	Discretionary Housing Benefit Grant	3.1
6.2	Local Welfare Provision Programme	-
18.2	Education Services Grant	13.7
5.9	Small Business Rate Relief Grant	6.2
3.4	Business Rates S31 Grant	4.6
-	Future Council Change Programme	4.4
10.5	Other	7.4
655.0	**Revenue Grants credited to Taxation and Non Specific Grant Income**	**544.2**
	Credited to Cost of Services	
11.8	Adult Education (Skills Funding Agency)	10.7
537.2	HB/CTB Subsidy Grant Claim	545.8
747.9	Dedicated Schools Grant	711.8
20.3	Education Funding Agency	18.0
62.9	Pupil Premium Grant	58.9
3.8	Illegal Money Lending	3.1
5.7	Universal Infants Free School Meals Grant	10.7
4.5	Health Contribution to Equipment Loan Service	-
2.1	NHS Clinical Commissioning Group contributions	6.6
80.8	Public Health Grant	86.4
34.8	CCG Contributions including Transfer of Care	-
-	Better Care Fund (formerly CCG Contributions)	29.7
-	Adult Social Care Implementation	5.1
-	Independent Living Fund Grant	3.6
20.3	Weekly Collection Support Scheme Grant	-
35.4	Grants and contributions of less than £3m	40.1
1,567.5	**Total Revenue Grants Credited to Cost of Services**	**1,530.5**
2,222.5	**Total Revenue Grants**	**2,074.7**

2014/15 £m		2015/16 £m
	Capital Grants	
29.7	Education Funding Agency (formerly DSCF fund)	62.1
0.2	Demographic Growth	-
-	Lottery	0.8
2.0	Section 106/278	0.5
4.0	Centro	-
3.4	Department of Health - Community Capacity	3.1
8.7	Centro - Integrated Transport Block	5.2
-	Disabled Facilities	0.2
2.2	European Regional Development Fund	0.8
4.4	Homes & Community Agency - New Build Programme	3.3
4.7	Department for Transport (inc. Cycle Ambition)	2.5
1.0	Home and Communities Agency	0.7
1.2	Growing Places	0.2
-	Local Growth Fund	14.4
-	Skills Funding Agency	2.0
-	Urban Broadband Grant	1.0
-	Integrated Transport Authority	1.8
4.0	Contribution from Developers (Paradise)	-
2.4	Other	5.1
67.9	**Capital Grants credited to Taxation and Non Specific Grant Income**	**103.7**
	Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services	
-	Local Growth Fund	7.6
2.0	A45 Road Improvement	3.0
1.0	Centro - Gateway	-
4.1	Disabled Facilities	4.4
3.2	Urban Broadband Grant	1.9
8.6	European Regional Development Fund	5.1
2.2	Other	0.6
21.1	**Total Capital Grants funding Revenue Expenditure Under Statute**	**22.6**
89.0	**Total Capital Grants Received**	**126.3**

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 2015/16. 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).

Note 18
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 Finance and Early Years (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on an authority-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 2015/16 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	**Total £m**
Final DSG for 2015/16 before academy recoupment	106.1	968.9	**1,075.0**
Academy figure recouped for 2015/16	-	(365.6)	**(365.6)**
Total DSG after Academy recoupment for 2015/16	**106.1**	**603.3**	**709.4**
Plus: Brought forward from 2014/15	12.6	-	**12.6**
Less: Carry forward to 2016/17 agreed in advance	-	-	**-**
Agreed initial budgeted distribution in 2015/16	**118.7**	**603.3**	**722.0**
In year adjustments	(3.8)	6.2	**2.4**
Final budgeted distribution for 2015/16	**114.9**	**609.5**	**724.4**
Less Actual Central Expenditure	(107.7)		**(107.7)**
Less Actual ISB deployed to schools		(609.5)	**(609.5)**
Plus: Council contribution for 2015/16	-	-	**-**
Carry forward to 2016/17	**7.2**	**-**	**7.2**

Note 19
Amounts Reported for Resource Allocation Decisions (Segmental Analysis)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council's Cabinet on the basis of regular revenue monitoring reports analysed across service areas. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- charges made in relation to capital expenditure may differ as revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement but typically not charged against service budgets during the year;
- the cost of retirement benefits is based on cash flows (payment of employer’s pensions contributions) rather than current service cost of benefits accrued in the year

Net expenditure underlying the variance analysis reported to Cabinet in the corporate Revenue Outturn report was as follows:

	2014/15				2015/16	
Gross Expenditure	**Gross Income**	**Net Expenditure**	**Directorate**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£m	£m	£m		£m	£m	£m
1,874.7	(1,302.0)	572.7	People	1,889.9	(1,334.3)	555.6
614.1	(386.2)	227.9	Place	528.5	(345.3)	183.2
1,027.4	(806.7)	220.7	Economy	1,172.7	(997.9)	174.8
3,516.2	**(2,494.9)**	**1,021.3**	**Total Directorate**	**3,591.1**	**(2,677.5)**	**913.6**

	2014/15	**2015/16**
	£m	£m
Net expenditure in Directorate Analysis	**1,021.3**	**913.6**
Amounts in the Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis	75.5	(17.7)
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(215.5)	(26.1)
Cost of Services in Comprehensive Income and Expenditure Statement	**881.3**	**869.8**

Reconciliation to Subjective Analysis

2015/16 comparative figures

	Directorate Analysis	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(663.0)	62.0	6.6		(594.4)	(61.2)	(655.6)
Support service recharges	(349.7)	(64.1)		454.2	40.4		40.4
Collection Fund Surplus					-	(5.7)	(5.7)
Interest and investment income	(5.2)		5.2		-	(30.6)	(30.6)
Income from Council Tax						(271.2)	(271.2)
Government grants and contributions	(1,659.6)		106.5		(1,553.1)	(851.8)	(2,404.9)
Total income	**(2,677.5)**	**(2.1)**	**118.3**	**454.2**	**(2,107.1)**	**(1,220.5)**	**(3,327.6)**
Employee expenses	1,056.8	(72.7)			984.1		984.1
Other service expenses	2,118.1	(47.0)			2,071.1	66.1	2,137.2
Support service recharges	260.5	66.0		(454.2)	(127.7)		(127.7)
Collection Fund Deficit					-	15.8	15.8
Depreciation, amortisation and impairment	155.7	38.1	(92.6)		101.2		101.2
Interest payments					-	255.3	255.3
Precepts and levies			(51.8)		(51.8)	51.9	0.1
Payments to Housing Capital Receipts pool					-	6.6	6.6
(Gain)/loss on disposal of non-current assets					-	40.2	40.2
Total expenditure	**3,591.1**	**(15.6)**	**(144.4)**	**(454.2)**	**2,976.9**	**435.9**	**3,412.8**
(Surplus)/deficit on the Provision of Services	**913.6**	**(17.7)**	**(26.1)**	**-**	**869.8**	**(784.6)**	**85.2**

2014/15

	Directorate Analysis	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(356.4)	60.4	(242.6)		(538.6)	(64.2)	(602.8)
Support service recharges	(423.9)			423.9	-		-
Collection Fund Surplus					-	(7.0)	(7.0)
Interest and investment income	(9.6)		9.6		-	(22.3)	(22.3)
Income from Council Tax					-	(261.8)	(261.8)
Government grants and contributions	(1,705.0)		116.5		(1,588.5)	(922.6)	(2,511.1)
Total income	**(2,494.9)**	**60.4**	**(116.5)**	**423.9**	**(2,127.1)**	**(1,277.9)**	**(3,405.0)**
Employee expenses	1,074.2	0.6			1,074.8		1,074.8
Other service expenses	1,966.5	(62.7)	(99.0)		1,804.8	68.0	1,872.8
Support service recharges	311.3	1.8		(423.9)	(110.8)		(110.8)
Collection Fund Deficit/Capital Grants Repaid					-	5.4	5.4
Depreciation, amortisation and impairment	164.2	75.4			239.6		239.6
Interest payments					-	260.5	260.5
Precepts and levies					-	54.9	54.9
Payments to Housing Capital Receipts pool					-	5.7	5.7
(Gain)/Loss on disposal of non-current assets					-	73.1	73.1
Total expenditure	**3,516.2**	**15.1**	**(99.0)**	**(423.9)**	**3,008.4**	**467.6**	**3,476.0**
(Surplus)/deficit on the Provision of Services	**1,021.3**	**75.5**	**(215.5)**	**-**	**881.3**	**(810.3)**	**71.0**

Note 20
Property, Plant and Equipment

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

Movements in Balances: 2015/16

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2015	**1,810.8**	**2,319.2**	**201.5**	**476.3**	**90.7**	**-**	**258.7**	**5,157.2**	**663.2**
Additions	100.5	83.9	24.3	47.0	0.9	-	86.4	**343.0**	27.9
Assets reclassified between categories	-	229.9	0.1	17.9	1.1	0.5	(249.0)	**0.5**	
Assets reclassified (to)/from Held for Sale	-	(3.5)	-	-	-	-	-	**(3.5)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	187.7	-	-	-	5.6	-	**193.3**	19.7
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(83.7)	-	-	-	1.3	(1.4)	**(198.6)**	(2.6)
Derecognition - Disposals	(17.1)	(331.2)	(27.5)	(0.2)	-	-	(0.1)	**(376.1)**	(33.0)
Derecognition - other	(1.4)	-	-	-	-	-	-	**(1.4)**	
Other movements in cost or valuation	-	-	-	-	-	-	0.0	**0.0**	
At 31 March 2016	**1,778.0**	**2,402.3**	**198.4**	**541.0**	**92.7**	**7.4**	**94.6**	**5,114.4**	**675.2**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(127.8)**	**(76.3)**	**(46.5)**	**-**	**-**	**-**	**(395.9)**	**(47.6)**
Depreciation charge	(37.8)	(50.2)	(21.3)	(20.1)	-	-	-	**(129.4)**	(25.4)
Depreciation written out to the Revaluation Reserve	39.3	85.5	-	-	-	-	-	**124.8**	4.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	119.0	-	-	-	-	-	**119.0**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	17.8	-	-	-	-	-	**(64.3)**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)	-	-	-	-	-	**25.8**	
Derecognition - Disposals	-	14.6	27.4	0.2	-	-	-	**42.2**	1.4
Assets reclassified (to)/from Held for Sale	-	0.2	-	-	-	-	-	**0.2**	
Other movements in depreciation and impairment	-	-	-	-	-	-	-	**-**	
At 31 March 2016	**(111.1)**	**(29.9)**	**(70.2)**	**(66.4)**	**-**	**-**	**-**	**(277.6)**	**(62.7)**
Net Book Value									
At 31 March 2016	**1,666.9**	**2,372.4**	**128.2**	**474.6**	**92.7**	**7.4**	**94.6**	**4,836.8**	**612.5**
At 31 March 2015	**1,665.5**	**2,191.4**	**125.2**	**429.8**	**90.7**	**-**	**258.7**	**4,761.3**	**615.6**

Movements in Balances: 2014/15

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2014	**1,769.8**	**2,498.9**	**254.5**	**540.1**	**89.5**	**-**	**189.6**	**5,342.4**	**604.4**
Additions	135.1	73.4	22.0	56.9	1.5	-	82.0	**370.9**	71.2
Assets reclassified between categories	-	2.0	0.1	10.7	0.2	-	(12.9)	**0.1**	
Assets reclassified (to)/from Held for Sale	-	(63.9)	-	-	-	-	-	**(63.9)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	55.5	(6.7)	-	-	-	-	**48.8**	(7.3)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(73.3)	(107.5)	-	-	-	-	-	**(180.8)**	(4.9)
Derecognition - Disposals	(17.7)	(128.4)	(68.4)	-	-	-	-	**(214.5)**	(0.2)
Derecognition - other	(3.1)	-	-	(131.4)	(0.5)	-	-	**(135.0)**	
Other movements in cost or valuation	-	(10.8)	-	-	-	-	-	**(10.8)**	
At 31 March 2015	**1,810.8**	**2,319.2**	**201.5**	**476.3**	**90.7**	**-**	**258.7**	**5,157.2**	**663.2**
Accumulated Depreciation and Impairment									
At 1 April 2014	**(109.7)**	**(157.5)**	**(129.1)**	**(147.0)**	**-**	**-**	**-**	**(543.3)**	**(45.4)**
Depreciation charge	(39.3)	(50.1)	(24.5)	(30.9)	-	-	-	**(144.8)**	(22.0)
Depreciation written out to the Revaluation Reserve	39.0	18.5	-	-	-	-	-	**57.5**	2.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	**-**	
Impairment (losses)/reversals recognised in the Revaluation Reserve	(108.7)	(18.2)	10.6	-	-	-	-	**(116.3)**	15.2
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	73.3	62.0	-	-	-	-	-	**135.3**	1.9
Derecognition - Disposals	-	16.9	66.7	131.4	-	-	-	**215.0**	
Assets reclassified (to)/from Held for Sale	-	0.6	-	-	-	-	-	**0.6**	
Other movements in depreciation and impairment	0.1	-	-	-	-	-	-	**0.1**	
At 31 March 2015	**(145.3)**	**(127.8)**	**(76.3)**	**(46.5)**	**-**	**-**	**-**	**(395.9)**	**(47.6)**
Net Book Value									
At 31 March 2015	**1,665.5**	**2,191.4**	**125.2**	**429.8**	**90.7**	**-**	**258.7**	**4,761.3**	**615.6**
At 31 March 2014	**1,660.1**	**2,341.4**	**125.4**	**393.1**	**89.5**	**-**	**189.6**	**4,799.1**	**559.0**

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. Peter Jones, Fellow of the Royal Institution of Chartered Surveyors (FRICS), Director of Property and other similarly qualified staff in Birmingham Property Services, Economy Directorate, carried out the valuations. A Valuation Certificate was issued on 8 June 2016 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 2015, with a review of any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a significant increase in building costs during the year to 31 March 2016. As a result, the valuations reflect these higher building costs. During the annual revaluation exercise material assets were componentised in line with the accounting policy.

In light of the identified increase in building costs used to inform DRC valuations, a review was undertaken to assess the impact on the value of those assets not subject to revaluation in 2015/16. 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 2016.

Housing:
The entire housing stock was valued as at 1 April 2015 by Peter Jones FRICS, and similarly qualified staff in Birmingham Property Services, according to the Department of Communities and Local Government 'Stock Valuation for Resource Accounting - Guidance for Valuers 2010'. The valuation was on the basis of Existing Use Value for Social Housing using sample "Beacon Properties" and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation was reviewed for any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified.

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

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

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2016 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 2015 Fair Value (EUV) £m	31 March 2016 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.	0.4	7.4

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			198.4	541.0	92.7		94.6	**926.7**
Valued at fair value as at:								
31 March 2016	1,778.0	1,633.3				7.4		**3,418.7**
31 March 2015		276.4						**276.4**
31 March 2014		151.6						**151.6**
31 March 2013		117.4						**117.4**
31 March 2012		223.6						**223.6**
Total cost or valuation	**1,778.0**	**2,402.3**	**198.4**	**541.0**	**92.7**	**7.4**	**94.6**	**5,114.4**

Impairment:

An impairment of £73.3m (2014/15: £106.0m) was made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on HRA dwellings did not add equivalent value. Details are included in Note H3 of the Supplementary Statements.

Capital Commitments

At 31 March 2016, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £1,028.0m. Similar commitments at 31 March 2015 were £1,081.0m. The major commitments are:

	£m
PFI lifecycle costs	638.2
Paradise Circus Enterprise Zone	57.7
Corporate IT Investment	47.0
Revenue Reform Projects	38.0
Swimming Pools – New Build	37.9
Additional School Places	32.1
New Build Housing	31.2
Wholesale Market	29.5
High Speed Rail College	24.0
Metro Extension	14.0
Longbridge Connectivity	5.2
Other projects < £5m	73.2

Capitalisation of Borrowing Costs

The Council has adopted an accounting policy of capitalising borrowing costs in relation to qualifying assets. In 2015/16 the amount of borrowing costs capitalised during the period was £6.3m (2014/15: £5.5m). 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 4.92% in 2015/16 (2014/15: 4.70%). For 2015/16, interest capitalised by scheme was as follows:

	£m
Enterprise Zone	0.6
Wholesale Market	0.3
Southside Grand Central	5.4

Note 21
Investment Property

Details of the Council's Investment Property are detailed below:

	2014/15	2015/16
	£m	£m
Cost or Valuation		
At 1 April	**-**	**10.8**
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(0.8)
Other movements in cost or valuation	10.8	-
At 31 March	**10.8**	**10.0**

Recurring Fair Value Measurement	Input Level in Fair Value Hierarchy	Valuation Technique used to measure Fair Value	31 March 2015 Fair value £m	31 March 2016 Fair Value £m
Highest and Best Use	Level 2	The fair value of investment property has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, and data and market knowledge gained in managing the Council's property portfolio.	10.8	10.0

The Council's investment property has been valued at 31 March 2016 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The asset was valued by Peter Jones (FRICS), Director of Property.

Note 22
Heritage Assets

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

Heritage Assets Held By the Council:

	Museum collections	Historic buildings	Public Art	Libraries and Archive collections	Civic Regalia and Plate	Total Assets
	£m	£m	£m	£m	£m	£m
01 April 2014						
- At Cost	3.6	11.1	0.4	-	-	15.1
- At Valuation	213.3	-	-	15.5	1.8	230.6
Revaluations	0.4	-	-	-	-	0.4
31 March 2015	**217.3**	**11.1**	**0.4**	**15.5**	**1.8**	**246.1**
- At Cost	*3.6*	*11.1*	*0.4*	*-*	*-*	*15.1*
- At Valuation	*213.7*	*-*	*-*	*15.5*	*1.8*	*231.0*
31 March 2015	***217.3***	***11.1***	***0.4***	***15.5***	***1.8***	***246.1***
01 April 2015						
- At Cost	3.6	11.1	0.4	-	-	15.1
- At Valuation	213.7	-	-	15.5	1.8	231.0
Additions	-	-	0.1	-	-	0.1
Revaluations	0.7	-	-	2.9	-	3.6
Depreciation	-	-	-	-	-	-
31 March 2016	**218.0**	**11.1**	**0.5**	**18.4**	**1.8**	**249.8**
- At Cost	*3.7*	*11.1*	*0.5*	*-*	*-*	*15.3*
- At Valuation	*214.3*	*-*	*-*	*18.4*	*1.8*	*234.5*
31 March 2016	***218.0***	***11.1***	***0.5***	***18.4***	***1.8***	***249.8***

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 historic 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. The Council estimated that, from its insurance records, the value of the Library collection was £15.5m, the Museum's collection was £212.4m and the Civic Regalia was £1.8m as at 1 April 2011. The valuation of the Libraries and Archive collection has now increased to £18.4m as at 31 March 2016.

Museum Collections

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museums Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world. The collection itself includes a number of highly valued items including works of art in oil by the 19th Century artist Ford Madox Brown, together with substantial works by Burne-Jones, Holman Hunt, Bellini and Canaletto amongst others. There have been some significant additions to the collections, in particular the Staffordshire Hoard, the largest hoard of Anglo-Saxon gold and silver metalwork yet found. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. In addition there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

The Birmingham Museums Trust has acquired a number of items from various sources during 2015/16, most notably a large collection of assets acquired through the Contemporary Art Society Special collection scheme, including artworks, silverware, ceramics and sculpture.

Historic Buildings and the Historic Environment

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

Public Art

The Council owns over 80 pieces of public art, including statues, sculpture and fountains, some of which are listed structures. Victoria Square fountain and King Edward VII statue are included in the balance sheet as reliable information is available for these works of art.
In 2015/16 additional expenditure was incurred on the Victoria Square Fountain and a minor addition to the public art portfolio.

Libraries and Archive Collections

The Library of Birmingham is unique amongst UK public libraries for the range and depth of the collections it houses. The library houses a large photography collection including those of pioneers Francis Frith and Sir Benjamin Stone. The Council also holds over 6,000 archive collections including major collections of national importance, such as those relating to the industrial innovators James Watt and Matthew Boulton. In addition there are significant collections of early and fine printing, incorporating over 8,000 books printed before 1701, and an extensive collection of literature and rare books, these latterly 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 233 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 City of Birmingham and the Sutton Coldfield Mayoral chains and the respective Maces. The City of Birmingham Mace was cast in silver, in the late 19th Century, by Elkington and Co.

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

Access to heritage assets is interpreted through permanent displays of historic 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 historic environment guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust has been created, to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.

Note 23
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:

	2014/15			2015/16		
	Internally Generated Assets	Other Assets	Total	Internally Generated Assets	Other Assets	Total
	£m	£m	£m	£m	£m	£m
Balance at start of year:						
- Gross carrying amounts	-	126.2	126.2	-	111.1	111.1
- Accumulated amortisation	-	(76.9)	(76.9)	-	(82.7)	(82.7)
Net carrying amount at start of year	**-**	**49.3**	**49.3**	**-**	**28.4**	**28.4**
Additions:						-
- Internal development	-	4.8	4.8	-	4.5	4.5
Other disposals	-	(19.9)	(19.9)	-	(74.2)	(74.2)
Amortisation for the period	-	(25.7)	(25.7)	-	(7.5)	(7.5)
Amortisation written out for disposals/transfers	-	19.9	19.9	-	74.2	74.2
Other changes	-	-	-	-	0.2	0.2
Net carrying amount at end of year	-	28.4	28.4	-	25.6	25.6
Comprising:						
Gross carrying amounts	-	111.1	111.1	-	41.6	41.6
Accumulated amortisation	-	(82.7)	(82.7)	-	(16.0)	(16.0)
	-	28.4	28.4	-	25.6	25.6

Note 24
Long Term Investments

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

31 March 2015		31 March 2016
£m		£m
26.5	Investment in subsidiary and associated companies	92.7
5.3	Available for Sale Financial Assets	5.5
0.3	Unquoted Equity Investment at Cost	0.3
32.1	**Total**	**98.5**

Note 25
Long Term Debtors

The table below shows amounts owed to the Council that are due for repayment more than 12 months after the Balance Sheet date. These balances have been split by type of debt.

31 March 2015		31 March 2016
£m		£m
37.6	External Loans	45.2
0.7	Employee loans	0.8
0.3	Mortgages: former Council House tenants	0.3
39.0	Other debtors	28.7
77.6	**Total**	**75.0**

Note 26
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. The Other Investments for 2014/15 included those loans to the NEC that formed part of the disposal transaction.

31 March 2015		31 March 2016
£m		£m
53.6	Money Market Funds	43.0
20.2	Financial Institutions	15.8
192.4	Other Investments	-
266.2	**Total**	**58.8**

Note 27
Assets Held for Sale

The following table shows the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through its continuing use.

	Current	
	2014/15	2015/16
	£m	£m
Balance outstanding at start of year	**11.8**	**68.8**
Assets newly classified as held for sale:		
- Property, plant and equipment	68.5	3.3
Revaluation gains	1.4	-
Impairments (losses)/reversals	(1.1)	(0.1)
Assets declassified as held for sale:		
- Property, plant and equipment	(5.2)	-
Assets sold	(6.5)	(67.8)
Other Movements	(0.1)	-
Balance outstanding at year end	**68.8**	**4.2**

In 2015/16, 6 assets have been reclassified as held for sale, with disposal expected in 2016/17.

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

- The Council values a number of assets at ‘fair value’. The size of a receipt from the sale of an asset is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate
- In line with the Code, the Council values some of its assets at Depreciated Replacement Cost (DRC). This includes those associated with the entities that are consolidated into the Group Accounts. Typically, where assets are valued at DRC it is likely that the asset values in the accounts will be higher than those the open market is willing to pay.

The potential difference in values cannot be quantified as those assets which may be disposed of may change and a ‘fair’ market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council’s Balance Sheet the sale of a small percentage of these could still result in a material difference.

Note 28
Short-Term Debtors

The table below shows amounts owed to the council at the end of the year that are due for repayment within 12 months. These balances have been split by type of organisation.

31 March 2015		31 March 2016
£m		£m
62.4	Central government bodies	48.6
12.2	Other local authorities	19.7
9.7	NHS bodies	5.0
0.1	Public corporations and trading funds	1.7
227.3	Other entities and individuals	213.0
311.7	**Total**	**288.0**

Note 29
Cash and Cash Equivalents

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

31 March 2015		31 March 2016
£m		£m
2.7	Cash held by the Council	2.9
35.0	Bank current accounts	63.5
(22.1)	Bank Overdrafts	(34.5)
15.6	**Total**	**31.9**

Note 30
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, split by type of organisation.

31 March 2015		31 March 2016
£m		£m
(30.3)	Central government bodies	(40.3)
(5.7)	Other local authorities	(5.8)
(5.9)	NHS bodies	(3.8)
(33.6)	Public corporations and trading funds	(36.2)
(267.2)	Other entities and individuals	(237.3)
(342.7)	**Total**	**(323.4)**

Note 31
Long Term Creditors

The table below shows amounts owed by the Council at the end of the year that are due for payment more than 12 months after the balance sheet date.

31 March 2015		31 March 2016
£m		£m
(13.6)	Other entities and individuals	(1.8)
(13.6)	**Total**	**(1.8)**

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:

	Current				Non-current			
	Equal Pay	Business Rates Appeals	Other Provisions	**Total**	Equal Pay	Business Rates Appeals	Other Provisions	**Total**
	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Balance at 1 April 2015	**303.4**	**14.4**	**14.7**	**332.5**	**258.2**	**7.3**	**-**	**265.5**
Additional provisions made in 2015/16	0.5	19.4	5.0	**24.9**	-	1.4	7.6	**9.0**
Amounts used in 2015/16	(203.0)	(17.7)	(5.4)	**(226.1)**	-	-	-	**-**
Transfer between current and non-current provision	157.1	-	-	**157.1**	(157.1)	-	-	**(157.1)**
Unused amounts reversed in 2015/16	-	-	(5.1)	**(5.1)**	(49.0)	-	-	**(49.0)**
Unwinding of discounting in 2015/16	-	-	-	**-**	-	-	-	**-**
Balance at 31 March 2016	**258.0**	**16.1**	**9.2**	**283.3**	**52.1**	**8.7**	**7.6**	**68.4**
Balance at 1 April 2014	180.4	-	11.1	**191.5**	457.8	21.3	3.2	**482.3**

<u>Equal Pay</u>

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for equal work. The Council has received a number of claims under the Equal Pay Act and, as a result, has set aside a provision of £310.1m (2014/15: £561.6m) that incorporates the best estimate of all unpaid claims received to 29 February 2016. The provision will be subject to review during the period of the audit. The Council has developed a model to assess the likely costs of claims, gained through the history of claims settled to date. Furthermore, a significant proportion of claims received at 29 February 2016, which remain to be settled, are subject to a legal agreement that stipulates the conditions of settlement.

The Secretary of State for Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with implementing the Equal Pay Act 1970. The Council has included both the capital and revenue impacts of equal pay claims in its long term financial plan, Business Plan 2016+.

National Non Domestic Rate Appeals (NNDR)

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 NNDR payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. These accounts include a provision of £24.8m (2014/15: £21.7m) 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 2016. The remaining share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority. The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

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

Other Provisions

Details of the major items included in other provisions are:

NEC – Pension Liability

The Council has set aside a provision of £7.6m to meet the potential additional contribution to NEC's defined benefit pension schemes which are closed to accrual of future benefits and which were transferred to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, following the sale of the NEC Group. The Council has 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.

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment, the timing of which is uncertain. It is anticipated that this provision will be utilised fully by 31 March 2018.

Gateway/Grand Central

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

The Carbon Reduction Commitment

In 2016/17 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 occupies during 2015/16. In line with the recommended treatment by CIPFA, a provision for this cost has been made in the 2015/16 accounts based on the estimated energy consumed in 2015/16.

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 funding regulations. Under this role there is, depending on 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 2016 of £424.2m and identified future commitments of £2.6m.

   Partnerships
   Where the Council has accepted the Accountable Body role for grant funding, which involves a wider Partnership arrangement and management of the fund, for example Local Enterprise Partnership (LEP) or the Regional Growth Fund (RGF), the Council's grant liability exists if it is deemed that it has been "unreasonable" in discharging its responsibilities. The Council has quantified this potential liability at 31 March 2016 of £99.0m and identified future expenditure commitments of £837.8m.

   To minimise the impact of any grant clawback liability for both Direct and Partnership Accountable Body type arrangements, the Council has put in place 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 claims for 2014/15 and 2015/16 are still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

3. Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equal Pay Act and, as a result, has set aside a provision of £310.1m (31 March 2015: £561.6m) which incorporates all claims received and negotiations agreed to 29 February 2016.

   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 major uncertainties surrounding the volume and timing of future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in Business Plan 2016+, which recognises the impact of future spending and funding requirements. The Council has the ability to use capital receipts generated after 1 April 2013 to meet equal pay costs.

4. Local Authorities were entitled to charge, under Section 93(1) of the Local Government Act 2003 and subsequently the Local Authorities (Charges for Property Searches)(England) Regulations 2008, for personal searches of the Local Land Charges Register. However, these charges were contrary to the Environmental Information Regulations 2004 which states that Public Authorities (such as the Council) are not able to charge for access to environmental data, which includes information held on the Local Land Charges Register. Claims are being brought against Local Authorities for personal search fees charged between 1 January 2005 and August 2010. The potential liability to the Council is estimated to be up to £0.5m, reflecting the fact that litigation is well advanced.

5. The Council is facing a number of compensation claims from former employees and from service users. Currently the validity of any claims is being assessed.

6. 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 substantially increased. As a result, the Scheme of Arrangement was enacted in 2014/15 and an Administrator has been appointed.

   At present, the Administrator has announced a levy of 15% on claims paid since 1 October 1993 and the Council has incurred costs of £0.4m 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.

<u>Contingent Assets</u>

At 31 March 2016 the Council has identified the following material contingent asset.

1. The Council has been undertaking a review of its major contracts. It has identified that there have been payments made not in accordance with its interpretation of the full terms and conditions of the associated contracts. Through discussions with the

relevant contractors, the Council is investigating the potential for the recovery of overpayments. Given the current status of these discussions and their sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.

Note 34
Council Borrowing

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

2014/15			2015/16	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
110.5	98.8	Lender's Option Borrower's Option (LOBO) loans	160.5	48.6
336.5	4.6	Local Bonds	410.5	13.5
2,221.0	55.5	Public Works Loan Board	2,200.9	100.8
-	444.9	Other Borrowing (mainly Other Local Authorities)	-	267.6
2,668.0	**603.8**	**Total**	**2,771.9**	**430.5**

Note 35
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2014/15 £m		2015/16 £m
(16.3)	Interest received	(9.9)
185.6	Interest paid	184.3
(6.2)	Dividends received	(20.8)
163.1		**153.6**

Note 36
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2014/15 £m		2015/16 £m
(325.1)	Purchase of property, plant and equipment, investment property and intangible assets	(341.5)
(3,191.8)	Purchase of short-term and long-term investments	(3,289.0)
57.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	365.4
3,198.2	Proceeds from short-term and long-term investments	3,518.6
0.3	Other receipts from investing activities	0.6
(260.5)	**Net cash flows from investing activities**	**254.1**

Note 37
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

2014/15 £m		2015/16 £m
67.1	Other receipts from financing activities	103.7
2,069.8	Cash receipts of short-term and long-term borrowing	1,054.3
(28.5)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(40.2)
(2,014.1)	Repayments of short-term and long-term borrowing	(1,211.8)
(2.7)	Other payments for financing activities	8.7
91.6	**Net cash flows from financing activities**	**(85.3)**

Note 38
Cash Flow – Other Adjustments

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

2014/15 £m		2015/16 £m
144.8	Depreciation/Impairment charge	129.4
25.7	Amortisation of Intangible Assets	7.5
34.6	Amortisation of Financial Instruments	-
-	(Increase)/Decrease in investments	(67.2)
46.7	Revaluation of Non-Current Assets	54.8
140.9	Derecognition of Non-Current Assets	403.0
(82.8)	(Increase)/Decrease in Debtors	26.3
58.9	Increase/(Decrease) in Creditors	48.3
-	(Increase)/Decrease in Inventories	(0.3)
(75.9)	Increase/(Decrease) in Provisions	(246.2)
65.8	Pensions Liability	55.4
358.7		**411.0**

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

2014/15 £m		2015/16 £m
(67.1)	Capital Grants	(103.7)
(58.2)	Capital Receipts	(365.9)
2.7	Council Tax and NNDR Adjustments	(8.7)
(122.6)		**(478.3)**

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 2015	31 March 2016	31 March 2015	31 March 2016
	£m	£m	£m	£m
Investments				
Loans and receivables	-	-	266.2	58.8
Available-for-sale financial assets	5.3	5.5	-	-
Unquoted equity investment at cost	0.3	0.3	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total	**5.6**	**5.8**	**266.2**	**58.8**
Investments that are not financial instruments	26.5	92.7	-	-
Total investments	**32.1**	**98.5**	**266.2**	**58.8**
Debtors				
Loans and receivables	38.3	46.0	5.2	3.7
Financial assets carried at contract amounts	-	-	225.6	196.3
Total	**38.3**	**46.0**	**230.8**	**200.0**
Debtors that are not financial instruments	39.3	29.0	80.9	88.0
Total debtors	**77.6**	**75.0**	**311.7**	**288.0**
Cash				
Loans and receivables			37.7	66.4
Total cash: asset			37.7	66.4
Financial liabilities at amortised cost			(22.1)	(34.5)
Total cash: liability			(22.1)	(34.5)
Borrowings				
Financial liabilities at amortised cost	(2,668.0)	(2,771.9)	(603.8)	(430.5)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	(2,668.0)	(2,771.9)	(603.8)	(430.5)
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,668.0)**	**(2,771.9)**	**(603.8)**	**(430.5)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(458.6)	(441.5)		
Total	(458.6)	(441.5)		
Other long term liabilities.	(69.3)	(66.3)		
Total long term liabilities	**(527.9)**	**(507.8)**		
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	(261.8)	(234.6)
Total	-	-	(261.8)	(234.6)
Creditors that are not financial instruments	(13.6)	(1.8)	(80.9)	(88.8)
Total creditors	**(13.6)**	**(1.8)**	**(342.7)**	**(323.4)**

<u>Material Soft Loans Made by the Council</u>
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 £16.0m, pays a fixed interest rate of 5% and matures in 2045. During the development phase of the project, interest was rolled up in the loan. In 2015/16, Warwickshire Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. Interest payments have resumed and a bullet principal payment is due in March 2020. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

Marketing Birmingham received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.6m, pays an interest rate of 2.2% and matures in 2022.

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

	2014/15 £m	2015/16 £m
Opening balance	**15.8**	**16.8**
Nominal value of new loans granted in year	0.8	-
Fair value adjustment on initial recognition	(0.2)	-
Loans repaid	(0.1)	(0.1)
Impairment losses	-	-
(Increase)/Reduction in discount	0.5	1.0
Closing Balance at end of year	**16.8**	**17.7**
Nominal value at 31 March	22.6	22.5

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.

<u>Income, Expenses, Gains and Losses</u>

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table:

	2014/15				2015/16			
	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**	Financial Liabilities measured at amortised cost	Financial Assets:Loans and Receivables	Financial Assets: Available for Sale	**Total**
	£m	£m	£m	**£m**	£m	£m	£m	**£m**
Interest Expense	185.6			**185.6**	184.3			**184.3**
Total expense in (Surplus)/Deficit on the Provision of Services	**185.6**			**185.6**	**184.3**			**184.3**
Interest and Dividend Income		(16.3)	(6.2)	**(22.5)**		(9.9)	(20.7)	**(30.6)**
Total income in (Surplus)/Deficit on the Provision of Services		**(16.3)**	**(6.2)**	**(22.5)**		**(9.9)**	**(20.7)**	**(30.6)**
(Gains)/Losses on Revaluation			(4.9)	(4.9)			0.6	0.6
(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure			**(4.9)**	**(4.9)**			**0.6**	**0.6**
Net (gain)/loss for the year	**185.6**	**(16.3)**	**(11.1)**	**158.2**	**184.3**	**(9.9)**	**(20.1)**	**154.3**

Fair Value of Assets and Liabilities

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

Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments (Level 2), using the following assumptions:

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2015 Fair Value £m	31 March 2016 Fair Value £m
PWLB loan	Level 2	PWLB new loan certainty rate (maturity)	(3,369.7)	(2,925.5)
Other long term fixed rate loans	Level 2	An estimate of the rate payable for a new loan on the same terms	(686.1)	(806.4)
Loans maturing in the next 12 months	Level 2	The carrying amount is assumed to approximate to fair value	(444.8)	(267.6)
Investments maturing in the next 12 months	Level 2	The carrying amount is assumed to approximate to fair value	73.8	58.8
Unquoted equity investments	Level 2	Valued at cost until a reliable fair value can be established	0.3	0.3
Financial instruments consolidated into group accounts	Level 2	Shown at the carrying amount	192.4	0.0

The fair values of financial liabilities are calculated as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£m	£m	£m	£m
Creditors	(261.8)	(261.8)	(234.6)	(234.6)
Borrowings	(3,271.8)	(4,500.6)	(3,202.4)	(3,999.5)
Other Long Term Liabilities	(527.9)	(794.0)	(507.8)	(773.5)
Total	**(4,061.5)**	**(5,556.4)**	**(3,944.8)**	**(5,007.6)**

The fair values of financial assets are calculated as follows:

	31 March 2015		31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£m	£m	£m	£m
Investments	271.8	271.8	64.6	64.6
Debtors	269.1	272.4	246.0	247.5
Total	**540.9**	**544.2**	**310.6**	**312.1**

The fair value of the liabilities and assets at 31 March 2016 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 2016) 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 2016) attributable to the commitment to receive interest below current market rates.

Fair Value of Available-for-sale Financial Assets

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2015 Fair Value £m	31 March 2016 Fair Value £m
Available for sale financial assets held to support economic growth	Level 3	Company performance	5.3	5.5

Note 40
Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of risks relating to its financial instruments, including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council may not have funds available to meet its payment commitments;
- Market risk – the possibility of financial loss due to changes in interest rates and market prices.

These risks are mainly managed by a central Treasury Management Team in accordance with policies and approvals set by the Council in its annual Budget Report, Treasury Management Strategy, and Treasury Management Practices in particular. The Council complies with CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities, both of which regulate the use of financial instruments and establish a treasury risk management framework.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is measured and managed primarily through the investment policies and strategy in the approved Budget, which requires that deposits are made in accordance with approved credit criteria and limits, including minimum credit ratings as follows:

'Specified' short term investments (all in Sterling)	**Short term rating***	**Long term rating***	**Council Individual lending limit**
Banks (including overseas banks) and Building Societies	F1+ /A1+ /P1	AA- /AA- /Aa3	£25m
	F1+ /A1+ /P1	A- / A- /A3	£20m
	F1 /A1 /P1	A- / A- /A3	£15m
	F2 /A2 /P2	BBB+ /BBB+ /Baa1	£10m
Sterling commercial paper and corporate bonds	F1+ /A1+ /P1	A- / A- /A3	£15m
Sterling Money Market Funds (short term and Enhanced)	AAA (with volatility rating V1 /S1 /MR1 where applicable)		£40m
Local authorities	n/a	n/a	£25m
UK Government and supranational bonds	n/a	n/a	none
UK Nationalised Banks and Government controlled agencies	n/a	n/a	£25m
Secured investments including repo and covered bonds	Lending limits determined as for banks (above) using the rating of the individual investment		

* Fitch / S&P / and Moody's rating Agencies respectively. Institutions must be rated by at least two of the Agencies, and the lowest rating will be taken into account.

No significant changes have been made in banking regulations in the past 12 months, since the EU and UK 'bail-in' rules were introduced in 2014/15. Consequently, no risk categories have been added or amended.

The Council will not invest more than £400m in long term investments as follows:

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 25% of long-term investments (i.e. those maturing in one year or more).

The Council also uses information from a variety of other sources in reaching a view about the suitability of particular investments.

The Council also makes a variety of investments in support of its service objectives. These investments are not subject to the above credit quality requirements, but are individually appraised and approved in relation to their support for service outcomes as well as their financial consequences and risks.

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there is no evidence at 31 March 2016 that this was likely to crystallise.

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

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

	Amount outstanding	Historical experience of default	Estimated experience of default	Estimated maximum exposure to default and uncollectability at 31 March 2016	Estimated maximum exposure at 31 March 2016
	£m	£m		£m	£m
Service investments	2.3	1.3	13%	0.4	0.7

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 Loans 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 2015	31 March 2016
	£m	£m
Less than 1 year	(968.4)	(788.4)
Between 1 and 2 years	(196.3)	(205.8)
Between 2 and 5 years	(243.9)	(242.0)
Between 5 and 20 years	(1,301.8)	(1,410.6)
Between 20 and 40 years	(1,036.0)	(1,139.1)
Over 40 years	(431.5)	(284.0)
Total	**(4,177.9)**	**(4,069.9)**

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

Market Risk

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

Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:
- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus/(Deficit) on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

These risks are measured and managed in accordance with the Council's Treasury Management Strategy, including the setting and monitoring of risk limits on the level of variable rate instruments and on the amount of borrowing maturing in future years.

At 31 March 2016, 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	2.7
Increase in interest receivable on variable rate investments	(0.6)
Impact on Surplus/(Deficit) on the Provision of Services	2.1
Share of overall impact debited to the HRA	0.4
Decrease in fair value of fixed rate investment assets	2.2
Impact on Other Comprehensive Income and Expenditure	2.2
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(490.2)

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 2016.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available.

Note 41
Capital Expenditure and Capital Financing

The Council's capital expenditure on an accruals basis, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute.

	31 March 2015 £m	31 March 2016 £m
Opening Capital Financing Requirement	**4,291.5**	**4,347.5**
Capital Investment		
Property, Plant and Equipment	370.9	343.4
Heritage Assets	-	0.1
Intangible Assets	4.8	4.7
Revenue Expenditure funded from Capital under Statute	53.2	105.7
Capital Grant Repayment	-	0.7
Long Term Loans	0.6	8.5
Increase in Share Equity	2.9	111.8
Sources of Finance		
Capital Receipts	(17.7)	(22.2)
Government Grants and other Contributions	(117.7)	(156.7)
Sums set aside from Revenue:	-	-
- Direct Revenue Contributions	(43.5)	(28.9)
- Use of Major Repairs Reserve	(68.2)	(47.8)
- Minimum Revenue Provision	(121.6)	(134.2)
- Voluntary Revenue Provision	-	-
- Capital Receipts set aside for debt redemption	(7.7)	(9.5)
Adjustments to Capital Financing	-	-
Closing Capital Financing Requirement	**4,347.5**	**4,523.1**
Explanation of Movements in Year		
Increase in underlying need to borrow	5.4	147.0
Assets acquired under finance leases	1.1	1.0
Assets acquired under PFI contracts	49.5	27.6
Increase/(decrease) in Capital Financing Requirement	**56.0**	**175.6**
Movement in Year	**56.0**	**175.6**

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

Note 42
Leases

The Council has a significant number of leases, where it is both the lessee and lessor.

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 as either Property, Plant and Equipment or Assets Held for Sale in the Balance Sheet at the following net amounts.

31 March 2015 £m		31 March 2016 £m
14.2	Other Land and Buildings	18.2
3.4	Vehicles, Plant Furniture & Equipment	3.5
17.6	**Total**	**21.7**

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 2015 £m		31 March 2016 £m
	Finance lease liabilities (net present value of minimum lease payments):	
1.2	- current	1.1
1.5	- non-current	1.5
2.0	Finance costs payable in future years	1.9
4.7	**Minimum lease payments**	**4.5**

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£m	£m	£m	£m
Not later than one year	1.4	1.3	1.2	1.1
Later than one year and not later than five years	1.6	1.7	1.3	1.4
Later than five years	1.7	1.5	0.2	0.1
Total	**4.7**	**4.5**	**2.7**	**2.6**

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 2015/16 contingent rents of £0.1m were payable (2014/15: nil).

The Council has not sublet any of the assets held under these finance leases.

Operating leases
The Council has acquired a number of administrative buildings under operating leases. The future minimum lease payments due under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2015 £m		31 March 2016 £m
0.6	Not later than one year	0.6
1.0	Later than one year and not later than five years	1.2
0.9	Later than five years	1.7
2.5	**Total**	**3.5**

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 2015 £m		31 March 2016 £m
0.8	Minimum lease payments	0.6
0.1	Contingent rents	0.1
0.9	**Total**	**0.7**

<u>**Council as the lessor**</u>

Finance leases
The Council has leased out property within Birmingham 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 2015 £m		31 March 2016 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.1	- current	-
36.8	- non-current	27.0
224.0	Unearned finance income	183.7
(20.4)	Less – Unguaranteed residual value of property	(28.5)
240.5	**Gross investment in the lease**	**182.2**

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 2015	31 March 2016	31 March 2015	31 March 2016
	£m	£m	£m	£m
Not later than one year	0.1	-	2.3	1.5
Later than one year and not later than five years	0.1	0.1	9.0	6.0
Later than five years	36.7	26.9	229.2	174.7
Total	**36.9**	**27.0**	**240.5**	**182.2**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 £1.2m contingent rents were receivable by the Council (2014/15 £1.1m).

Operating leases
The Council has leased out property within Birmingham 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 2015		31 March 2016
£m		£m
11.7	Not later than one year	10.4
31.9	Later than one year and not later than five years	26.4
145.0	Later than five years	70.0
188.6	**Total**	**106.8**

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 2015/16 £2.6m contingent rents were receivable by the Council (2014/15 £2.6m).

Leases - contingent rent

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

Note 43
Service Concession Arrangements

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

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

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

- Schools. There are 4 separate arrangements in place for the rebuild / refurbishment and management of a total of 24 schools within Birmingham. These arrangements are of varying duration and service providers: 6 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), 4 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 seven 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 5 year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained. The management element of the contract deals with road space management under legislation and responsibility for the Street Works Register, and services include:
    - Raising highway standards
    - Upgrading street lighting and the Council's traffic management assets
    - Refurbishing the Council's tunnels
    - Maintaining specified street furniture.

  Indexation is applied annually on 1 April by reference to movements in the Retail Price Index. Deductions can be levied for non-performance of the contractual deliverables as specified within the contract. As the size and scale of the highway network varies, the contract provides for these changes to be accrued into the network maintained by the Service Provider, attracting an increase/decrease in payments made as appropriate.

The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early terminations or period clauses within the PFI arrangement. There have been no changes in the arrangement during 2015/16.

Payments remaining as at 31 March 2016	Interest	Repayment of liability	Payment for services	**Total**
	£m	£m	£m	£m
Payable in 2016/17	35.7	17.1	73.1	**125.9**
Payable within 2 to 5 years	130.2	59.0	235.0	**424.2**
Payable within 6 to 10 years	137.4	85.7	233.7	**456.8**
Payable within 11 to 15 years	97.1	122.9	276.3	**496.3**
Payable within 16 to 20 years	41.1	147.1	255.6	**443.8**
Payable within 21 to 25 years	3.3	25.2	24.2	**52.7**
Total	**444.8**	**457.0**	**1,097.9**	**1,999.7**

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:

2014/15		2015/16
£m		£m
448.6	Liability outstanding at the start of the year	469.6
(28.5)	Repayment of liability	(40.2)
49.5	Lifecycle and further capital expenditure	27.6
469.6	**Liability outstanding at the year end**	**457.0**

£27.0m of the costs incurred in respect of lifecycle and further capital expenditure relates to the continuing upgrade of the City infrastructure, with the remainder incurred on minor enhancements to schools PFI projects.

Contingent rents, charged to the CIES, as a result of the impact of inflation total £4.9m (2014/15: £6.1m). The outstanding liability identified does not include the impact of future contingent rent.

Note 44
Members' Allowances

Allowances paid to Members of the Council in 2015/16 totalled £2.6m (2014/15: £2.7m). These figures include Members’ allowances, superannuation contributions and expenses. Further information can be found on the Council's website www.birmingham.gov.uk

Note 45
Officers' Remuneration

The remuneration paid to the Council's senior employees is detailed in the table below. The pension contributions for 2014/15 have been restated to show only the future years' contributions. The payments made by the Council to recover past service cost deficits have traditionally been included in the overall Council superannuation rate but should be excluded from this disclosure.

		Salary, fees and allowances	Expense Allowances	Pension contributions	Total
		£	£	£	£
M Rogers, Chief Executive	2014/15	182,500	-	22,448	204,948
	2015/16	182,500	3,600	23,543	209,643
P Hay, Strategic Director, People (1)	2014/15	158,693	-	19,519	178,212
	2015/16	164,898	-	21,272	186,170
J Kennedy, (Acting) Strategic Director, Place (2)(8)	2014/15	-	-	-	-
	2015/16	103,057	-	13,294	116,351
W Nazir, (Acting) Strategic Director, Economy (3)(8)	2014/15	-	-	-	-
	2015/16	22,315	-	2,879	25,194
A Probert, Strategic Director – Integrated Support Services and Change, Corporate Resources (4)	2014/15	-	-	-	-
	2015/16	33,420	15,000	4,311	52,731
P Dransfield, Strategic Director – Major Programmes and Projects, Corporate Resources (5)	2014/15	150,930	-	18,564	169,494
	2015/16	150,930	-	19,470	170,400
J Warlow, Strategic Director – Finance and Legal Services, Corporate Resources (6)	2014/15	117,000	-	14,391	131,391
	2015/16	126,184	-	16,278	142,462
Dr A Phillips, Director of Public Health	2014/15	124,076	-	24,608	148,684
	2015/16	124,076	-	17,743	141,819
P DasGupta, Assistant Chief Executive (7)	2014/15	-	-	-	-
	2015/16	18,434	-	2,378	20,812
S Lea, Strategic Director, Place (2)	2014/15	150,364	-	18,495	168,859
	2015/16	50,310	-	363,790	414,100

Notes:
The Council undertook a review of the senior management structure in the 2015/16 financial year. The review saw a realignment of responsibilities and a strengthening of corporate capacity. The principal changes are included in the notes below.

(1) Peter Hay holds the statutory roles of Chief Education Officer, Director of Children's Social Care and Director of Adult Social Services

(2) Jacqui Kennedy took up the position in September 2015 following the retirement of the previous post holder, Sharon Lea, on 31 July 2015 as a result of a restructure to reduce the overall senior management costs within the Place Directorate going forward.

(3) Waheed Nazir took up the position on 25 January 2016 following the realignment of strategic director responsibilities.

(4) Angela Probert took up post on 4 January 2016.

(5) Paul Dransfield, formerly Deputy Chief Executive, took up responsibility for major programmes and projects from 1 January 2016.

(6) Jon Warlow, formerly Director of Finance, took up post on 1 January 2016. Jon holds the statutory role of Section 151 Officer.

(7) Piali DasGupta took up post on 11 January 2016.

(8) Comparative figures are not provided for 2014/15 as individuals were not members of the Corporate Leadership Team during the year.

To provide strategic support during the transition period of the senior management restructure a post of Interim Director for Service Delivery was filled for a 12 month period to 17 December 2015. Payments in respect of the interim post holder in 2015/16 were £171,050 (2014/15, £62,700).

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. The figures for 2014/15 have been restated to exclude those staff employed in Voluntary Aided and Foundation schools, which had previously been included on the basis that the balance of control of schools lay with the Council. However, staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

2014/15 (Restated)				2015/16		
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**
152	169	**321**	£50,000 - £54,999	164	191	**355**
116	85	**201**	£55,000 - £59,999	94	73	**167**
87	47	**134**	£60,000 - £64,999	90	41	**131**
58	53	**111**	£65,000 - £69,999	55	58	**113**
29	13	**42**	£70,000 - £74,999	32	17	**49**
18	8	**26**	£75,000 - £79,999	19	10	**29**
15	13	**28**	£80,000 - £84,999	14	6	**20**
8	13	**21**	£85,000 - £89,999	13	11	**24**
6	12	**18**	£90,000 - £94,999	4	12	**16**
4	12	**16**	£95,000 - £99,999	6	2	**8**
2	3	**5**	£100,000 - £104,999	3	6	**9**
2	2	**4**	£105,000 - £109,999	-	2	**2**
-	3	**3**	£110,000 - £114,999	-	3	**3**
1	1	**2**	£115,000 - £119,999	1	1	**2**
1	3	**4**	£120,000 +	-	10	**10**
499	**437**	**936**		**495**	**443**	**938**

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

The ‘Other Council Employees’ figures in the above table include employees with planned termination payments, 46 in 2015/16 (75 in 2014/15). Excluding employees in receipt of planned termination payments, 397 employees in 2015/16 (362 in 2014/15) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed the Council and are affected by the conversion of a number of schools to Academy Status. Academy schools are independent of the Council and their employees are therefore excluded from the Council’s financial statements.

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 168 in 2015/16 (2014/15: 174).

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. The figures for 2014/15 have been restated to give a more detailed analysis of the breakdown by individual package range, and to exclude those staff employed in Voluntary Aided and Foundation schools.

2014/15 (Restated)							2015/16					
Compulsory		Voluntary		**Total**		Value of individual package	Compulsory		Voluntary		**Total**	
No	£m	No	£m	**No**	**£m**	£000	No	£m	No	£m	**No**	**£m**
-	-	1	0.3	**1**	**0.3**	£250+	-	-	3	0.9	**3**	**0.9**
-	-	3	0.7	**3**	**0.7**	£200 - £250	2	0.5	3	0.6	**5**	**1.1**
-	-	3	0.5	**3**	**0.5**	£150 - £200	1	0.2	6	1.1	**7**	**1.3**
1	0.1	12	1.4	**13**	**1.5**	£100 - £150	2	0.3	14	1.7	**16**	**2.0**
1	0.1	13	1.2	**14**	**1.3**	£80 - £100	3	0.3	14	1.1	**17**	**1.4**
1	0.1	23	1.6	**24**	**1.7**	£60 - £80	4	0.3	15	1.0	**19**	**1.3**
2	0.1	53	2.6	**55**	**2.7**	£40 - £60	13	0.6	25	1.3	**38**	**1.9**
4	0.1	231	6.3	**235**	**6.4**	£20 - £40	20	0.5	63	1.9	**83**	**2.4**
30	0.2	476	4.3	**506**	**4.5**	less than £20	92	0.8	269	1.8	**361**	**2.6**
39	**0.7**	**815**	**18.9**	**854**	**19.6**	**Total**	**137**	**3.5**	**412**	**11.4**	**549**	**14.9**

In addition to the costs of exit packages identified above, the Council incurred costs of £0.3m in 2015/16 (£0.1m in 2014/15) 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.

2014/15 £m		2015/16 £m
0.4	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	0.3
-	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	0.1
0.4	**Total**	**0.4**

Note 48
Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council. In addition to the companies where the Council has influence through its share ownership or representation on the board, which are considered in more detail below, the Council has had transactions of over £100,000 with the following organisations which fall within the definition of related parties:

Birmingham and Solihull Mental Health Trust
Chinnbrook Family and Community Project
Evenbrook
Focus Birmingham
IKON Gallery
Leigh Trust
Lench's Trust
Pertemps
Priority Area Playgroup
Sir Josiah Mason Trust
Stonham (part of Home Group)
Thompsons Solicitors
University Hospital Birmingham Foundation Trust

The value of transactions for other, non-consolidated, related parties was net expenditure of £0.5m (£0.8m expenditure and £0.3m income).

During 2015/16, works and services to the value of £422.7m, inclusive of VAT, were commissioned from related parties of which £30.4m remains outstanding. Additionally £78.9m, inclusive of VAT, was received during 2015/16 from companies in which the Council had a related party interest of which £34.1m remains outstanding. 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 2016 are £87.5m of funding guarantees, £31.5m of investments and £48.5m of loans (of which £46.0m is repayable after 31 March 2017).

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, Housing Benefits). Grants received from Government departments are set out in the subjective analysis in Note 19 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2016 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 2015/16 is shown in Note 44.

Officers
There were no transactions between Senior Officers of the Authority and Birmingham City Council and its related parties, other than the receipt of emoluments due as employees of the Council and payments of Council Tax due as appropriate.

Greater Birmingham and Solihull Business Rates Pooling Arrangement

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2015/16. The objective of the Pool is to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

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

The table below summarises the financial activity for the year:

	2014/15 £m	2015/16 £m
Funding provided to the pooled budget		
Birmingham City Council	-	-
Bromsgrove District Council	9.0	9.3
Cannock Chase District Council	10.4	11.5
East Staffordshire Borough Council	18.3	19.0
Lichfield District Council	11.0	11.5
Redditch Borough Council	12.2	12.4
Solihull Metropolitan Borough Council	25.6	28.6
Tamworth Borough Council	10.3	11.0
	96.8	**103.3**

Expenditure met from the pooled budget		
Birmingham City Council	96.7	98.9
Bromsgrove District Council		0.2
Cannock Chase District Council		0.3
East Staffordshire Borough Council		0.1
Lichfield District Council		0.2
Redditch Borough Council	0.1	0.4
Solihull Metropolitan Borough Council		0.8
Tamworth Borough Council		0.2
GBS LEP		2.0
Safety Net Contingency		0.2
	96.8	**103.3**

The 2014/15 figures shown in the table above are the final, post-audit outturn figures.

The information in the table above is based on information available at the time of compiling the 2015/16 Statement of Accounts. On finalisation of the business rates income (post audit), it is possible that there will be a change to income to be re-allocated, but this is not expected to be of a material nature overall.

The Pool will continue in future years until such time that a member serves the appropriate notice period of its intention to leave.

Other Public Bodies - Pooled Budgets

The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham Cross City CCG, Birmingham South Central CCG and Sandwell and West Birmingham CCG. The pooled budget is responsible for the joint commissioning of services relating to Mental Health and Learning Disabilities. The objective of the pooled arrangement is to improve services for users through closer working and co-operation in the commissioning of services. The arrangements have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations with the Council hosting the Learning Disability element and the combined CCGs hosting Mental Health Services provision. The table below summarises the financial activity for the year:

	2014/15		2015/16	
	£m	£m	£m	£m
Funding provided to the pooled budget				
Birmingham City Council	120.0		93.0	
Combined Clinical Commissioning Groups	174.8		166.3	
		294.8		259.3
Expenditure met from the pooled budget				
Birmingham City Council	120.0		93.0	
Combined Clinical Commissioning Groups	174.8		166.3	
		294.8		259.3
Net surplus arising from the pooled budget during the year		-		-

The Better Care Fund

The Better Care Fund (BCF) was announced in June 2013 with the intention to drive the transformation of local care services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups (CCGs). Specific resources were earmarked for the BCF by NHS England in its allocation to Clinical Commissioning Groups. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities. No new money has been made available to the health and care system but the BCF provides an opportunity for joint working between local authorities and health organisations to deliver better outcomes for service users.

The funding the Council receives through the BCF replaces the Section 256 transfer from the NHS that has been made in recent years.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and health integrated provision between the Council and local CCGs, namely Birmingham Cross City CCG, Birmingham South Central CCG and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF. Further services have been added to the BCF during the year.

Funding of £86.244m was earmarked for the BCF by the Department of Health via the CCGs as detailed in the table below. The Council's contribution was made up of the resources previously allocated through two capital grants, namely the Disabled Facilities Grant and the Social Care Capital Grant.

Contribution to the BCF Pooled Fund	£m
Birmingham Cross City CCG	54.978
Birmingham South Central CCG	19.223
Sandwell and West Birmingham CCG	12.043
NHS Contribution	**86.244**
Birmingham City Council	9.496
Total BCF Pooled Fund	**95.740**

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 £m	Nature of Arrangement
Bed Based Additional Provision	1.358	Lead Commissioning – Council
Social Care Based Additional Provision	1.606	Sole Control – Council
Reablement - Kenrick Centre	1.197	Lead Commissioning – Council
Reablement - Kenrick Centre – GP Cover	0.050	Joint Control
Care Act	2.970	Lead Commissioning – Council
Carers Strategy	1.185	Lead Commissioning – Council
Eligibility Criteria	20.044	Sole Control – Council
Acuity Tool Management	0.120	Joint Control
Management of Programme	1.011	Joint Control
Community Services	42.530	Sole Control - CCGs
Reablement – Rapid Assessment, Interface and Discharge	1.681	Sole Control - CCGs
Outpatient Antimicrobial Therapy – Heart of England Foundation Trust	0.034	Sole Control - CCGs
Outpatient Antimicrobial Therapy – Birmingham Community Health Care FoundationTrust	0.031	Sole Control - CCGs
Non Elective Admissions (reduction)	6.483	Sole Control - CCGs
Equipment Contracts	6.207	Joint Control
Disabled Facilities Grant and Capital	7.764	Sole Control – Council
Non-recurring Pump Priming Schemes	1.321	Joint Control
	95.592	
Balance of funding	0.148	
Total BCF	**95.740**	

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 2015/16.

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

	Expenditure	**Income**	**Debtor balance at year end**	**Creditor balance at year end**
	£m	£m	£m	£m
Acivico Limited	48.4	11.5	15.4	7.3
Birmingham Museums Trust	7.3	2.3	0.2	0.8
Innovation Birmingham Limited	6.8	0.3	0.1	-
The National Exhibition Centre (Developments) Limited	92.2	0.2	-	0.1
The National Exhibition Centre Limited (until 1 May 2015)	-	0.5	-	-
Performances Birmingham Limited	2.7	0.9	-	0.2
PETPS (Birmingham) Limited	7.6	-	-	-

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

	Expenditure	Income	Creditor balance at year end	Debtor balance at year end
	£m	£m	£m	£m
Birmingham Airport Holdings Limited (BAH)	0.2	21.3	0.2	2.3
Paradise Circus General Limited	18.2	4.4	-	2.8
Service Birmingham Limited	96.6	18.4	4.0	1.9

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 2015/16.

Birmingham Business Support Centre Limited	Finance Birmingham Limited
Birmingham Brand Care Limited	Gallery 37 Foundation*
Birmingham Venture Capital Limited	Greater Birmingham and West Midlands Brussels Office*
Birmingham Endeavour Limited*	INReach (Birmingham) Limited
Creative Advantage West Midlands Limited	Library of Birmingham Development Trust

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 2015/16.

Ascension Ventures	Host My Portfolio/Hobzy
Aston Eyetech Limited*	Inceptum Development Limited
Auctus*	Info-Ctrl Limited*
Big Button	Inspyra Technologies
Birmingham Wheels Ltd	Learning Labs Limited
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*	Marketing Birmingham*
Birmingham Research Park Ltd*	Matchbox Enterprises Ltd
Birmingham Schools SPC Holdings Phase 1A Limited	Midlands Industrial Association Ltd
Birmingham Schools SPC Phase 1A Limited*	Mutt Motorcycles Limited*
Birmingham Schools SPC Holdings Phase 1B Limited	Natural HR Limited
Birmingham Schools SPC Phase 1B Limited*	Obillex Limited*
Bridge Street Management Ltd	Owned It
Central Technology Belt	Paradise Circus Limited Partnership

Closed Questions (Vote Here Ltd)*
Concierge Events Limited
Concurrent Thinking*
Crowd Technologies
CSR City Limited
Droplet Online
Ex Cathedra
Finds You
Foodient T/A Whisk
Formatzone Limited*
Pure Mobile*
The Review Business (dissolved January 2016)
Skips
Socially Accepted Games T/A Soshi*
Stockfield Community Association
Stockfield Community Association (Subsidiary) Ltd
UK Municipal Bonds Agency PLC
Veolia Environmental Services Birmingham Ltd*
Vision Technologies
Wetakestock Limited

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2015/16.

Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd
Birmingham Conservation Trust*
Birmingham Disability Resource Centre*
Birmingham Hippodrome Theatre Trust Ltd*
Birmingham Opera Company*
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Broad Street Partnership Ltd
Castle Vale Neighbourhood Partnership Board
Centro*
City of Birmingham Symphony Orchestra*
Dance Xchange*
The Drum/ Newtown Cultural Project*
Erdington Town Centre Partnership*
Jewellery Quarter Development Trust CIC*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust*
Retail B'ham Limited*
St Basils*
S4E*
St. Paul's Community Development Trust*
Warwickshire County Cricket Club*
West Midlands Arts Trust
WLCA Enterprises Ltd
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 member representation on BIDs within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2015/16.

Acocks Green Village BID*
Colmore Business District BID*
Erdington BID*
Jewellery Quarter BID*
Kings Heath BID*
Northfield BID*
Retail Birmingham BID*
Soho Road BID*
Southside BID*
Sutton Coldfield Town Centre BID*
West Side BID*

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	126	-	234.2
Accountable Body	26	156.5	211.5
Business Rate Pooling	8	0.2	126.1
Arrangements supporting Housing activities	15	3.6	16.8
Reporting of Trust activities	19	22.4	0.4
Other transactions	9	0.2	1.4

External Payrolls

The Council provides payroll services to a number of external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll system. Whilst the cost of providing the service is charged to the external organisation and forms part of the CIES, the payroll records for the external organisations do not form part of the Council's financial statements.

<u>Accountable Body Role</u>

Greater Birmingham & Solihull Local Enterprise Partnership

Resources have been made available through a number of Government sources, including the Regional Growth Fund where the Council has been identified as the accountable body. In its role as accountable body, under the terms and conditions of the funding arrangements, the Council has no entitlement to:

- retain any interest generated as a result of the provision of state funds;
- use the state funds in any way other than as provided for in the offer letter.

The Council acts as accountable body for the resources provided on behalf of the Greater Birmingham & Solihull Local Enterprise Partnership (the LEP). The Council may receive direct funding to support eligible projects as determined by the LEP.

Enterprise Zones

The Council provides accountancy support, 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.

Other Roles

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.

InReach

The Council set up this wholly owned subsidiary on 31 March 2016. The company will be used to facilitate the development of 92 new private rented homes at market rent at St Vincent Street, Ladywood. The company is not consolidated into the Council's Group Accounts as the level of transactions within the company to date is not considered material to the whole.

NEC Developments Ltd

Following the disposal of the Council's interests in NEC Group Limited, NEC Developments Ltd 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.

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

In support of the activities that it undertakes as part of activities reported in the main Financial Statements, the Council also collects rents and manages properties on behalf of Housing Trusts and Community Associations.

Trusts

The Council provides administrative and accountancy support to a number of trusts.

Endowments

Where the Council receives an endowment, it holds the money in trust and uses the income generated in line with the conditions of the endowment.

Other

The Council provides accountancy support to:

- a number of National and Regional bodies, collecting contributions and making payments on their behalf
- receiving and making payments in respect of service users who require support in managing their resources.

Note 50
Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total monies held at 31 March 2016 were £27.4m (2014/15: £27.7m). In addition, the Council held £3.3m (2014/15: £3.5m) of Adult Services Clients' Funds. The trust funds and clients' funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

	Balance at 31 March 2015	Income	Expenditure	Balance at 31 March 2016
	£m	£m	£m	£m
Council acting as Sole Trustee				
Birmingham Municipal Charity General Charitable Objectives	0.3	0.1	0.1	0.4
Charles Baker Trust – for the elderly and disabled	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.7	-	-	14.7
Elford Trust – healthy recreation for Birmingham citizens	3.3	0.1	0.1	3.3
Harriet Louisa Loxton Charity – for the aged and infirm	1.7	-	0.1	1.6
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Total Council acting as Sole Trustee	**22.3**	**0.3**	**0.4**	**22.2**
Council acting as Custodian				
Alderson – To let dwelling houses to ex-servicemen and other persons in need	0.3	0.1	-	0.4
Bodenham Trust – for children with special educational needs	0.6	-	-	0.6
Clara Martineau Trust – for children with special educational needs	3.7	0.2	0.4	3.5
Holinsworth Fund – to further the work of voluntary bodies	0.2	-	-	0.2
The Lord Mayor's Charity Appeal – for charitable purposes	0.2	-	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Other	0.2	-	-	0.2
Total for Council acting as Custodian	**5.4**	**0.4**	**0.6**	**5.2**
Total Trust balances	**27.7**	**0.7**	**1.0**	**27.4**

Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2016	Unrestricted Funds at 31 March 2016	Total Funds at 31 March 2016
	£m	£m	£m
Council acting as Sole Trustee			
Birmingham Municipal Charity General Charitable Objectives	0.3	-	0.3
Charles Baker Trust – for the elderly and disabled	0.1	0.2	0.3
Cropwood Estate – management of the estate	0.2	14.5	14.7
Elford Trust – healthy recreation for Birmingham citizens	3.2	0.1	3.3
Harriet Louisa Loxton Charity – for the aged and infirm	1.4	0.2	1.6
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	-	2.0
Total Council acting as Sole Trustee	**7.2**	**15.0**	**22.2**
Council acting as Custodian			
Alderson – To let dwelling houses to ex-servicemen and other persons in need	-	0.4	0.4
Bodenham Trust – for children with special educational needs	0.6	-	0.6
Clara Martineau Trust – for children with special educational needs	3.5	-	3.5
Holinsworth Fund – to further the work of voluntary bodies	0.2	-	0.2
The Lord Mayor's Charity Appeal – for charitable purposes	-	0.1	0.1
Moseley Road Friends Institute – provision and maintenance	0.2	-	0.2
Other	0.1	0.1	0.2
Total for Council acting as Custodian	**4.6**	**0.6**	**5.2**
Total	**11.8**	**15.6**	**27.4**

SUPPLEMENTARY FINANCIAL STATEMENTS 2015/16

Housing Revenue Account Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority 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.

2014/15 £m		Note	2015/16 £m
	Income		
(260.6)	Dwellings rents		(267.7)
(7.3)	Non-dwellings rents		(6.1)
(21.2)	Charges for services and facilities		(19.5)
-	Sums Directed by the Secretary of State that are income in accordance with the Code		-
(289.1)	**Total Income**		**(293.3)**
	Expenditure		
59.7	Repairs and maintenance		59.8
71.4	Supervision and management	H9	76.5
4.7	Rent, rates, taxes and other charges		5.2
39.3	Depreciation	H6	37.8
0.2	Debt management costs		0.2
7.5	Movement in the allowance for bad debts (not specified by the Code)		7.2
-	Sums Directed by the Secretary of State that are expenditure in accordance with the Code		-
182.8	**Total Expenditure**		**186.7**
(106.3)	**Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement**		**(106.6)**
0.1	HRA share of Corporate and Democratic Core		0.1
0.3	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		(0.6)
(105.9)	**Net Cost/(Income) of HRA Services**		**(107.1)**

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

Movement on the Housing Revenue Account Statement

2014/15		2015/16
£m		£m
(65.4)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(59.0)
65.3	Adjustments between accounting basis and funding basis under statute (note 6)	58.8
(0.1)	Net (increase) / decrease before transfers to / (from) reserves	**(0.2)**
-	Transfers to / (from) reserves	0.1
(0.1)	(Increase) / decrease for the year on HRA balance	**(0.1)**
(4.4)	HRA Balance Brought Forward	(4.5)
(4.5)	HRA Balance Carried Forward	**(4.6)**

Exceptional Items

Included in the Cost of HRA Services is a charge of £0.5m (2014/15: £3.4m credit) in respect of liabilities under Equal Pay legislation. Further details of the provision are given in Note H9. The impact of this provision is reversed out through the Movement in Reserves Statement so that it does not fall as a charge to the HRA until payment is made.

Notes to the Housing Revenue Account

H1. Housing Stock

The types of properties (including Shared Ownership properties) owned by the Council at 31st March comprise:

31 March 2015		31 March 2016
3,734	1 bedroom bungalows	3,726
15,358	1 bedroom flats	15,248
42	1 bedroom houses	47
295	2 bedroom bungalows	292
10,921	2 bedroom flats	10,843
8,494	2 bedroom houses	8,546
34	3 or more bedroom bungalows	35
4,227	3 or more bedroom flats	4,200
19,838	3 or more bedroom houses	19,700
62,943	**Total housing stock**	**62,637**

The change in the property numbers is analysed below:

2014/15		2015/16
63,418	Stock at 1 April	62,943
(521)	Sales	(455)
(275)	Demolitions / transfers	(181)
321	Acquisitions	330
62,943	**Stock at 31 March**	**62,637**

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

31 March 2015		31 March 2016
£m		£m
1,665.5	Council dwellings/garages	1,666.9
29.2	Other land and buildings	34.7
1,694.7	**Total operational assets**	**1,701.6**
26.9	Non-operational assets	19.9
1,721.6	**Total**	**1,721.5**

The housing stock, land and other property within the HRA are valued in line with the DCLG Guidance on Stock Valuation for Resource Accounting published in January 2011. 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 2015/16 of 34%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £100.5m was spent on HRA dwellings during the year of which £73.3m was impaired as not adding value to the dwellings. This impairment was charged to the revaluation reserve in year.

As at 31 March 2016, the Council also owned 119 dwellings (2015: 137) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £3.2m (2015: £3.6m).

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

31 March 2015		31 March 2016
£m		£m
398.9	Land	404.7
23.8	Kitchens	19.5
31.6	Bathrooms	25.3
70.6	Windows	56.6
43.8	Heating	38.3
38.9	Roofs	33.2
1,057.9	Remaining Structure	1,089.3
1,665.5	**Total**	**1,666.9**

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 2016 is £4,557.6m.

(b) The difference between the above figure and the figure of £1,666.9m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the DCLG's stock valuation model as explained in Supplementary Note H1.

H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. As disclosed in Supplementary Note H1 there was an impairment of £73.3m made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on the assets did not add equivalent value. In addition a revaluation of the HRA dwellings has identified an increase in value of £30.5m, resulting in a net decrease in value of £42.8m. This decrease has been transferred to a revaluation reserve.

H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below:

2014/15		2015/16
£m		£m
44.6	Balance on Major Repairs Reserve at 1 April	15.8
39.3	Amount transferred to Major Repairs Reserve during the year	37.8
(68.1)	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	(47.8)
15.8	**Balance on Major Repairs Reserve at 31 March**	**5.8**

H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2014/15		2015/16
£m		£m
17.7	Usable Capital Receipts (Right to Buy / land)	22.2
68.1	Major Repairs Reserve	47.8
29.4	Revenue contributions	20.1
14.0	Prudential Borrowing	4.5
5.9	Other resources	5.9
135.1		**100.5**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £27.2m (land £6.1m, houses £21.1m). The values for 2014/15 were £35.6m (land £12.8m and houses £22.8m). The Government operates a capital receipts pooling framework and of these amounts £6.5m was paid to Central Government (2014/15: £5.7m).

H6. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Authority's HRA is £37.8m (2014/15: £39.3m). 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 11 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 2016 totalled £12.1m (2014/15: £11.3m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £22.2m at 31 March 2016 (2014/15: £21.8m).

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 £28.7m at 31 March 2016 (2014/15: £25.2m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2015		31 March 2016
£m		£m
11.3	Current tenants	12.1
11.3	Housing benefit overpayment	13.2
10.5	Other debt (services/leaseholders)	9.0
33.1	**Total arrears**	**34.3**
25.2	Provision for bad debts	28.7

H9. Supervision and Management

The Council has recognised that an element of the settlements being agreed in respect of claims under the Equal Pay Act 1970 relate to employees whose employment costs fell on the HRA. Therefore the HRA has been charged its share of the Council's overall Equal Pay liability based on the current estimate of claims. The charge to the HRA relates solely to claims relating to activities correctly charged to the HRA, and amounts to a charge of £0.5m in 2015/16 (2014/15: £3.4m credit). These amounts also include £14.7m that has been set aside in a provision for future years' payments. Statutory arrangements (Capital Regulation 30A) allow the change in provision to be reversed back to an Equal Pay Back Pay Account. The remaining balance on the Equal Pay Back Pay Account will be debited back to the HRA through the Movement in Reserves Statement in future financial years as payments are made.

Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and 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. The table has been restated for 2014/15 to more accurately reflect the sums to be recorded against the Collection Fund and against the Council. The restatement has not changed either the (Surplus)/Deficit in year or the (Surplus)/Deficit carried forward.

2014/15 (Restated)				2015/16		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m		£m	£m	£m
			Income			
			Council Tax Receivable:			
(312.9)		(312.9)	Collectable Council Tax	(322.9)		(322.9)
(312.9)		**(312.9)**		**(322.9)**		**(322.9)**
			Business Rates Receivable:			
	(439.6)	(439.6)	Collectable Business Rates		(437.2)	(437.2)
	4.8	4.8	Transitional Payment Payable to Government		1.1	1.1
	(434.8)	**(434.8)**			**(436.1)**	**(436.1)**
	(2.4)	**(2.4)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(3.8)**	**(3.8)**
			Apportionment of Prior Year Deficit:			
(1.1)	(3.2)	(4.3)	Birmingham City Council	-	(2.1)	(2.1)
	(3.1)	(3.1)	Central Government		(2.3)	(2.3)
	(0.1)	(0.1)	West Midlands Fire & Rescue Authority	-	-	-
(0.1)		(0.1)	West Midlands PCC	-		-
(1.2)	**(6.4)**	**(7.6)**	**Total Apportionment of Prior Year Deficit**		**(4.4)**	**(4.4)**
(314.1)	**(443.6)**	**(757.7)**	**TOTAL INCOME**	**(322.9)**	**(444.3)**	**(767.2)**

2014/15 (Restated)				2015/16		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m	Expenditure	£m	£m	£m
			Precepts Demands & Shares:			
261.7	199.6	461.3	Birmingham City Council	272.1	203.9	476.0
0.1		0.1	New Frankley Parish Council	0.1		0.1
	199.5	199.5	Central Government		201.9	201.9
12.4	4.0	16.4	West Midlands Fire & Rescue Authority	12.9	4.0	16.9
24.1		24.1	West Midlands PCC	25.0		25.0
			Charges:			
7.9	9.3	17.2	Increase/(Decrease) in Provision for Bad and Doubtful Debts	9.4	12.7	22.1
	29.6	29.6	Increase/(Decrease) in Provision for Appeals		40.0	40.0
	1.9	1.9	Cost of Collection		1.9	1.9
306.2	**443.9**	**750.1**	**TOTAL EXPENDITURE**	**319.5**	**464.4**	**783.9**
(7.9)	**0.3**	**(7.6)**	**(Surplus)/Deficit for the year**	**(3.4)**	**20.1**	**16.7**
3.2	**31.4**	**34.6**	**(Surplus)/Deficit brought forward**	**(4.7)**	**31.7**	**27.0**
(4.7)	**31.7**	**27.0**	**(Surplus)/Deficit carried forward**	**(8.1)**	**51.8**	**43.7**

Notes to the Collection Fund
C1. Contributions from Council Taxpayers

The Council's tax base at January 2015 (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	139	5/9	77
A	78,743	6/9	52,495
B	83,521	7/9	64,961
C	56,818	8/9	50,505
D	29,973	1	29,973
E	17,500	11/9	21,389
F	7,819	13/9	11,294
G	5,332	15/9	8,887
H	749	18/9	1,498
Total	**280,594**		**241,079**
Less adjustment for collection rate			(6,990)
			234,089

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	2	5/9	1
A	680	6/9	453
B	969	7/9	754
C	84	8/9	75
D	53	1	53
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
Total			**1,339**
Less adjustment for collection rate			(39)
			1,300

C2. Business Ratepayers

The Council collects National Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (48.0p for 2015/16: 47.1p for 2014/15). The total non-domestic rateable value at 31 March 2016 was £1,068.10m (31 March 2015: £1,061.89m). Under the National Non-Domestic Rates Retention Scheme the amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

C3. Precept Payments

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the National Non-Domestic Rates element of the Collection Fund are the City Council, Central Government and the West Midlands Fire and Rescue Authority.

Statement of GROUP Accounts 2015/16

Narrative Report

1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council Group for the period from 1 April 2015 to 31 March 2016. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

1.2 In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies and trusts means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

1.3 These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting policies are made as consolidation adjustments.

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

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

1.6 The pages which follow contain the Group's Financial Statements for the year ended 31 March 2016, with comparative figures for the previous financial year.

2 Consolidation of Subsidiary and Associate Companies

2.1 The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest is considered material to the Group as a whole.

2.2 The Council disposed of the National Exhibition Centre Limited Group (NEC Ltd) on 1 May 2015 and the group accounts have included the activity of that company for the period to the date of disposal.

2.3 The Council has included two companies into its Group consolidation for the first time as the activity in the companies is considered material to the whole, namely:

- PETPS (Birmingham) Limited, which has taken on the employer responsibility for the pension liabilities of the NEC Ltd on its disposal has been included as a subsidiary company, and
- Paradise Circus General Partner Limited, a partnership between the Council and BRITEL Funds Trustees Limited for the development of the Paradise Circus area of the City, has been included as an associate company.

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

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

Associates
- Birmingham Airport Holdings Limited
- Paradise Circus General Partner Limited
- Service Birmingham Limited

2.5 Further detail regarding the Council's relationship with the above companies is given in notes G23 and G24.

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

3 Changes in Group Structure

3.1 On 16 January 2015, the Council announced that it had entered into a binding agreement to sell the National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The sale was completed on 1 May 2015.

3.2 The sale involved a number of transactions, the key ones being:

- Disposal of the Council's interests in NEC Ltd;
- The transfer of the on-going funding of the NEC defined benefit pension schemes to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which is consolidated in these Group financial statements;
- The termination and re-signing of existing lease arrangements.

3.3 The assets held in the Group's financial statements in 2014/15 that were related to the disposal of NEC Ltd were categorised as Assets Held for Sale. Additional information is included in the relevant Group notes and in the Council's financial statements for clarity.

4 Introduction of new Accounting Standards

4.1 The Financial Reporting Council introduced FRS102*, The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as a replacement for UK Generally Accepted Accounting Practice (UK GAAP), for the preparation of accounts beginning on or after 1 January 2015. The new accounting standards, whilst changing the format and disclosure requirements in the accounts, may also impact on the amounts being reported as the measurement basis may have changed.

4.2 A number of companies that are consolidated into the Council's Group Accounts have now adopted FRS102 for the first time. The impact on the reporting amounts in the companies' accounts has been minimal. In aligning accounting policies for consolidation, the Council has historically adjusted company accounts to an IFRS basis.

5 The Main Financial Statements

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

5.2 Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

5.3 The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/(deficit) on the provision of services is detailed below.

	2014/15		2015/16	
	Entity £m	Group £m	Entity £m	Group £m
Surplus/(Deficit) on Provision of Services	(71.0)	(40.9)	(85.2)	(77.9)

5.4 The 2015/16 GCIES shows an increase of £37.0m in the net cost of services compared to 2014/15. Whilst there have been reductions in service expenditure, these have been offset by the reductions in income, mainly from government grants, and the exceptional payment detailed in the Council's entity statements.

5.5 Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2016 and the level of reserves, split into usable and unusable.

	2014/15		2015/16	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Long Term Assets	5,156.3	5,200.2	5,295.7	5,233.7
Current Assets	685.4	709.8	418.6	428.2
Current Liabilities	(1,301.1)	(1,368.2)	(1,071.7)	(1,077.7)
Long Term Liabilities	(5,768.6)	(5,881.5)	(5,437.6)	(5,431.5)
Net Assets/(Liabilities)	**(1,228.0)**	**(1,339.7)**	**(795.0)**	**(847.3)**
Represented by				
Usable Reserves	626.0	519.9	895.7	831.1
Unusable Reserves	(1,854.0)	(1,859.6)	(1,690.7)	(1,678.4)
Total Reserves	**(1,228.0)**	**(1,339.7)**	**(795.0)**	**(847.3)**

5.6 The net liability has reduced by £492.4m to £847.3m. This is mainly due to reductions in the net liability on defined benefit pension schemes and the reduction in provision by the Council for Equal Pay claims.

5.7 Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

Group 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	Earmarked General Fund Reserves	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	**£m**
Balance at 31 March 2014	**85.8**	**348.3**	**4.4**	**27.5**	**44.6**	**142.4**	**653.0**	**(1,379.0)**	**(726.1)**	(110.3)	**(836.4)**
Movement in Reserves during 2014/15											
Surplus/(Deficit) on the provision of services	(68.6)		65.4				**(3.2)**		**(3.2)**	(31.5)	**(34.7)**
Other Comprehensive Income and Expenditure							**-**	(430.9)	**(430.9)**	(37.7)	**(468.6)**
Total Comprehensive Income and Expenditure	**(68.6)**	**-**	**65.4**	**-**	**-**	**-**	**(3.2)**	**(430.9)**	**(434.1)**	**(69.2)**	**(503.3)**
Adjustments between Group Accounts and Council Accounts (Note G22)	(67.8)						(67.8)		(67.8)	67.8	-
Changes in Group Reserves accounted for through equity (G6)											
Net Increase/(Decrease) before Transfers	**(136.4)**	**-**	**65.4**	**-**	**-**	**-**	**(71.0)**	**(430.9)**	**(501.9)**	**(1.4)**	**(503.3)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	187.6	-	(65.3)	(11.2)	(28.8)	(38.3)	**44.0**	(44.0)	**-**	-	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**51.2**	**-**	**0.1**	**(11.2)**	**(28.8)**	**(38.3)**	**(27.0)**	**(474.9)**	**(501.9)**	**(1.4)**	**(503.3)**
Transfers to/(from) Earmarked Reserves (Note 7)	0.8	(0.8)					**-**		**-**		**-**
Increase/Decrease in 2014/15	52.0	(0.8)	0.1	(11.2)	(28.8)	(38.3)	**(27.0)**	(474.9)	**(501.9)**	**(1.4)**	**(503.3)**
Balance at 31 March 2015	**137.8**	**347.5**	**4.5**	**16.3**	**15.8**	**104.1**	626.0	**(1,854.0)**	**(1,228.0)**	**(111.7)**	**(1,339.7)**
Movement in Reserves during 2015/16											
Surplus/(Deficit) on the provision of services	(122.1)		59.0				**(63.1)**		**(63.1)**	(8.4)	**(71.5)**
Other Comprehensive Income and Expenditure							**-**	518.1	**518.1**	89.3	**607.4**
Total Comprehensive Income and Expenditure	**(122.1)**	**-**	**59.0**	**-**	**-**	**-**	**(63.1)**	**518.1**	**455.0**	80.9	**535.9**
Adjustments between Group Accounts and Council Accounts (Note G22)	(22.0)						(22.0)		(22.0)	22.0	-
Changes in Group Reserves accounted for through equity (G6)										(43.5)	(43.5)
Net Increase/(Decrease) before Transfers	**(144.1)**	**-**	**59.0**	**-**	**-**	**-**	**(85.1)**	**518.1**	**433.0**	**59.4**	**492.4**
Adjustments between accounting basis and funding basis under regulations (Note 6)	159.0	-	(58.9)	295.8	(10.0)	(31.1)	**354.8**	(354.8)	**-**		**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**14.9**	**-**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**163.3**	**433.0**	59.4	**492.4**
Transfers to/(from) Earmarked Reserves (Note 7)	(41.8)	41.8					**-**		**-**		**-**
Increase/Decrease in 2015/16	**(26.9)**	**41.8**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**163.3**	**433.0**	59.4	**492.4**
Balance at 31 March 2016	**110.9**	**389.3**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,690.7)**	**(795.0)**	(52.3)	**(847.3)**

Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. Discontinued operations relate to the disposal of NEC Ltd on 1 May 2015.

2014/15 Gross Expenditure £m	2014/15 Gross Income £m	2014/15 Net Expenditure £m	Continuing Operations	Note	2015/16 Gross Expenditure £m	2015/16 Gross Income £m	2015/16 Net Expenditure £m
20.1	(13.5)	6.6	Central services to the public		21.0	(12.2)	8.8
185.3	(49.8)	135.5	Cultural and Related Services		128.0	(52.6)	75.4
105.1	(44.2)	60.9	Environmental and Regulatory Services		105.1	(27.2)	77.9
68.3	(62.1)	6.2	Planning Services		64.4	(56.3)	8.1
1,178.7	(900.1)	278.6	Children's and Education Services		1,107.6	(862.0)	245.6
135.2	(33.1)	102.1	Highways and Transport Services		245.4	(44.5)	200.9
182.8	(289.1)	(106.3)	Housing Revenue Account		186.7	(293.3)	(106.6)
641.2	(571.1)	70.1	Housing General Fund		641.5	(586.9)	54.6
374.2	(96.7)	277.5	Adult Social Care		369.7	(101.5)	268.2
73.4	(81.9)	(8.5)	Public Health		85.5	(76.6)	8.9
(2.1)	(2.2)	(4.3)	Corporate and Democratic Core		1.3	(2.8)	(1.5)
46.4	-	46.4	Non Distributed Costs		24.6	-	24.6
3,008.6	**(2,143.8)**	**864.8**	**Total Cost Of Services**		**2,980.8**	**(2,115.9)**	**864.9**
-	-	-	Public Health – 0 to 5 years		8.3	(11.3)	(3.0)
3,008.6	**(2,143.8)**	**864.8**	**Total Cost Of Services**		**2,989.1**	**(2,127.2)**	**861.9**
137.5	-	137.5	Other Operating Expenditure		104.2	-	104.2
330.6	(87.3)	243.3	Financing and Investment Income and Expenditure	G5	323.5	(98.1)	225.4
120.6	(139.3)	(18.7)	Discontinued Operations	G4	12.0	(13.5)	(1.5)
5.4	(1,191.4)	(1,186.0)	Taxation and Non-Specific Grant Income		16.6	(1,128.7)	(1,112.1)
		40.9	**(Surplus) / Deficit on Provision of Services**				**77.9**
		(8.4)	Share of the (Surplus)/Deficit on the Provision of Services of Associates				(9.8)
		-	Tax Expense of Subsidiaries				0.1
		2.1	Tax Expense of Associates				3.3
		34.6	**Group (Surplus)/Deficit**				**71.5**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(116.1)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G7,G8			(293.5)
		124.2	Impairment losses on non-current assets charged to the revaluation reserve	G7,G8			73.3
		441.9	Remeasurement of the net defined benefit liability	G20			(249.4)
		-	Other (Gains)/Losses				(145.6)
		19.0	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				7.2
		469.0					**(608.0)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.4)	(Surplus) / deficit on revaluation of available for sale financial assets				0.7
		(0.4)					**0.7**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		-	Gain/(loss) adjustment on disposal of available for sale financial assets				**(0.1)**
							(0.1)
		468.6	**Other Comprehensive (Income) / Expenditure**				**(607.4)**
		503.2	**Total Comprehensive (Income) / Expenditure**				**(535.9)**

Other gains/losses mainly relate to accounting adjustments on disposal of the NEC Group on 1 May 2015.

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 2015 £m		Note	31 March 2016 £m
4,801.7	Property, Plant and Equipment	G7	4,856.1
246.1	Heritage Assets		249.8
10.8	Investment Property		10.0
28.4	Intangible Assets		25.6
6.4	Long Term Investments		5.8
67.9	Long Term Debtors		61.5
38.9	Investments in Associates and Joint Ventures	G23,G24	24.9
5,200.2	**Total Long Term Assets**		**5,233.7**
75.2	Short Term Investments	G9	58.8
288.3	Assets Held for Sale	G8	4.2
1.1	Inventories		1.5
301.7	Short Term Debtors	G10	281.2
43.5	Cash and Cash Equivalents	G9	82.5
709.8	**Total Current Assets**		**428.2**
(22.5)	Cash and Cash Equivalents	G9	(34.5)
(603.8)	Short Term Borrowing		(430.5)
(338.9)	Short Term Creditors	G11	(329.4)
(70.6)	Liabilities in Disposal Groups		-
(332.4)	Provisions		(283.3)
(1,368.2)	**Total Current Liabilities**		**(1,077.7)**
(86.8)	Long Term Creditors	G9	(73.1)
(262.5)	Provisions		(60.8)
(2,668.0)	Long Term Borrowing		(2,684.4)
(527.9)	Other Long Term Liabilities		(507.8)
(2,336.3)	Net liability on defined benefit pension scheme	G20	(2,105.4)
(5,881.5)	**Total Long Term Liabilities**		**(5,431.5)**
(1,339.7)	**Net Assets**		**(847.3)**
519.9	Usable Reserves	G12	831.1
(1,859.6)	Unusable Reserves	G13	(1,678.4)
(1,339.7)	**Total Reserves**		**(847.3)**

Group Cash Flow Statement

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

2014/15 £m		Note	2015/16 £m
(34.6)	Net Surplus/(Deficit) on the provision of services		(71.5)
311.8	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements		605.9
(122.9)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities		(693.0)
154.3	**Net cash flows from Operating Activities**	**G14**	**(158.6)**
(251.1)	Investing Activities	G15	270.2
92.1	Financing Activities	G16	(84.6)
(4.7)	**Net increase/(decrease) in cash and cash equivalents**		**27.0**
25.7	Cash and cash equivalents at the beginning of the reporting period		21.0
21.0	**Cash and cash equivalents at the end of the reporting period**		**48.0**

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and Group's transactions for the 2015/16 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries or associates with details included in respect of the classification within Notes G23 and G24. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates consolidated under the equity method.

Investments in associates are carried at cost rather than fair value.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council's entity accounts. Where there are not material differences, the Notes to the Council's 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 implementation of FRS102 for the first time means that the level of adjustments required is minimised.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity financial statements, with additional policies specific to the Group set out below.

Derivative Financial Instruments and Hedging Activities

The Group used foreign currency forward contracts to mitigate the adverse currency exchange risk on trade receivables. These contracts were treated as a trading instrument with fair value movements on the derivative being recognised immediately through the income statement. At 31 March 2015 NEC Ltd had entered into forward contracts totalling €3.65m all of which were due to mature within 24 months.

Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G20.

Defined Benefit Pension Scheme

Acivico Limited and Birmingham Museums Trust participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G20.

Note G2
Critical Judgements in Applying Accounting Policies

National Exhibition Centre

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

The Council considered the criteria within IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, and determined that the tests for recognition of the assets and liabilities within the Balance Sheet as a disposal group in Assets Held for Sale were met at the 2014/15 Balance Sheet Date. The Council, therefore, recognised those NEC assets and liabilities subject to the disposal as Assets Held for Sale at the year end, which required a transfer from their previous Balance Sheet categories.

The disposal of the NEC was completed on 1 May 2015.

Other critical judgements relating to the Council in applying Accounting Policies are provided in Note 3 to the Council entity accounts.

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

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

Assumptions made about future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity accounts.

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

Note G4
Discontinued Operations

Discontinued operations relate to those activities undertaken by the NEC Ltd, which the Council disposed of on 1 May 2015. Responsibility for the closed pension schemes that were operated by NEC Ltd have been retained in PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council. The identification of the activities affected by the disposal are shown in the Comprehensive Income and Expenditure Statement and Balance Sheet and detailed below for information.

Comprehensive Income and Expenditure Statement

2014/15				2015/16		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
120.6	(139.3)	(18.7)	Discontinued Operations	12.0	(13.5)	(1.5)

Note G5
Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group Comprehensive Income and Expenditure Statement comprises the following.

2014/15				2015/16		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
201.5	-	201.5	Interest Payable and Similar charges	190.5		190.5
75.9	(0.6)	75.3	Net interest on the net defined benefit liability	73.2	(2.0)	71.2
-	(16.4)	(16.4)	Interest Receivable and similar income		(14.2)	(14.2)
64.3	(64.2)	0.1	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	59.8	(61.2)	(1.4)
-	(6.1)	(6.1)	Other investment income and expenditure		(20.7)	(20.7)
341.7	**(87.3)**	**254.4**	**Sub Total**	**323.5**	**(98.1)**	**225.4**
11.1		11.1	Discontinued Operations included in Above	-	-	-
330.6	**(87.3)**	**243.3**	**Total**	**323.5**	**(98.1)**	**225.4**

Note G6
Changes in Group Reserves accounted for through Equity

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

NEC (Developments) PLC has accounted for activities with the Council, £43.5m as adjustments to capital contributions, thereby, reducing member equity in the company.

Note G7
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

Movements on Balances:2015/16

	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 2015	**1,810.8**	**2,353.2**	**219.2**	**476.3**	**90.7**	**-**	**259.8**	**5,209.8**	**663.2**
Additions	100.5	83.9	25.1	47.0	0.9		93.4	**350.8**	27.9
Assets reclassified between categories		230.0	0.2	17.9	1.1	0.4	(249.1)	**0.5**	
Assets reclassified (to)/from Held for Sale		(3.5)						**(3.5)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve		188.6				5.6		**194.2**	19.7
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(86.4)				1.3	(1.5)	**(201.4)**	(2.6)
Derecognition - Disposals	(17.1)	(357.6)	(27.5)	(0.2)				**(402.4)**	(33.0)
Derecognition - other	(1.4)							**(1.4)**	
At 31 March 2016	**1,778.0**	**2,408.2**	**216.9**	**541.0**	**92.7**	**7.3**	**102.6**	**5,146.7**	**675.2**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(128.2)**	**(88.3)**	**(46.5)**	**-**	**-**	**-**	**(408.3)**	**(47.6)**
Depreciation charge	(37.8)	(50.2)	(22.5)	(20.2)				**(130.7)**	(25.4)
Depreciation written out to the Revaluation Reserve	39.3	85.5						**124.8**	4.7
Depreciation written out to the Surplus/Deficit on the Provision of Services		119.5						**119.5**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	17.9						**(64.2)**	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)						**25.8**	
Derecognition - Disposals		14.6	27.4	0.2				**42.2**	1.4
Derecognition - of components		0.2						**0.2**	
Other movements in depreciation and impairment		(0.2)		0.2				**-**	
At 31 March 2016	**(111.1)**	**(29.9)**	**(83.3)**	**(66.3)**	**-**	**-**		**(290.6)**	**(62.7)**
Net Book Value									
At 31 March 2016	**1666.9**	**2378.3**	**133.6**	**474.7**	**92.7**	**7.3**	**102.6**	**4,856.1**	**612.5**
At 1 April 2015	**1,665.5**	**2,225.0**	**130.9**	**429.8**	**90.7**	**-**	**259.8**	**4,801.5**	**615.6**

Movements on Balances:2014/15

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2014	**1,769.8**	**2,689.2**	**280.3**	**540.1**	**89.5**	**-**	**189.7**	**5,558.6**	**604.4**
Additions	135.1	74.9	23.8	56.8	1.5		98.8	**390.9**	71.2
Assets reclassified between categories		13.2	0.3	10.7	0.2		(24.3)	**0.1**	
Assets reclassified (to)/from Held for Sale		(220.1)						**(220.1)**	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve		55.6	(6.8)					**48.8**	(7.3)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(73.3)	(120.4)	(10.1)				(4.4)	**(208.2)**	(4.9)
Derecognition - Disposals	(17.7)	(128.4)	(68.3)					**(214.4)**	(0.2)
Derecognition - other	(3.1)			(131.3)	(0.5)			**(134.9)**	
Other movements in cost or valuation		(10.8)	-	-		-	-	**(10.8)**	-
At 31 March 2015	**1,810.8**	**2,353.2**	**219.2**	**476.3**	**90.7**	**-**	**259.8**	**5,209.8**	**663.2**
Accumulated Depreciation and Impairment									
At 1 April 2014	**(109.7)**	**(157.7)**	**(145.4)**	**(147.0)**	**-**	**-**	**-**	**(559.8)**	**(45.4)**
Depreciation charge	(39.3)	(50.3)	(25.5)	(30.9)				**(146.0)**	(22.0)
Depreciation written out to the Revaluation Reserve	38.9	18.6						**57.5**	2.7
Depreciation written out to the Surplus/Deficit on the Provision of Services			5.3					**5.3**	
Impairment (losses)/reversals recognised in the Revaluation Reserve	(108.6)	(18.2)	10.6					**(116.2)**	15.2
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	73.4	61.9						**135.3**	1.9
Derecognition - Disposals		16.9	66.7	131.4				**215.0**	
Derecognition - of components		0.6						**0.6**	
Other movements in depreciation and impairment								**-**	
At 31 March 2015	**(145.3)**	**(128.2)**	**(88.3)**	**(46.5)**	**-**	**-**	**-**	**(408.3)**	**(47.6)**
Net Book Value									
At 31 March 2015	**1,665.5**	**2,225.0**	**130.9**	**429.8**	**90.7**	**-**	**259.8**	**4,801.5**	**615.6**
At 1 April 2014	**1,660.1**	**2,531.5**	**134.9**	**393.1**	**89.5**	**-**	**189.7**	**4,998.7**	**559.0**

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 20 to the Council entity accounts. Buildings assets held by Innovation Birmingham Group Limited have been valued as at 31 March 2016.

Note G8
Assets Held for Sale

The following table shows the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through its continuing use.

	Current	
	2014/15	2015/16
	£m	£m
Balance outstanding at start of year	**11.8**	**288.3**
Assets newly classified as held for sale:		
- Property, plant and equipment	224.7	3.3
- Intangible assets	2.7	-
- Other assets/(liabilities) in disposal groups	60.7	-
Revaluation losses	-	(25.1)
Revaluation gains	1.4	-
Impairments (losses)/reversals	(1.1)	(0.1)
Assets declassified as held for sale:		
- Property, plant and equipment	(5.2)	-
Assets sold	(6.5)	(262.2)
Other Movements	(0.2)	-
Balance outstanding at year end	**288.3**	**4.2**
Liabilities in Disposal Groups	70.6	

Included within Assets Held for Sale in 2014/15 were those assets of the National Exhibition Centre which the Council disposed of on 1 May 2015. The assets held by the Group at 31 March 2015, fair value of £283.8m, which formed part of the NEC disposal agreement were a combination of land and buildings and other assets and liabilities.

The Liabilities in 2014/15 related to the NEC Ltd are shown separately on the balance sheet under Liabilities in Disposal Groups.

Details of the other Assets Held for Sale are set out in Note 27 to the Council entity accounts.

Note G9
Financial Instruments

Investments
The following short term investments are brought into the Group Financial Statements upon group consolidation:

	Short-term	
	31 March 2015	31 March 2016
	£m	£m
Investments		
Loans and receivables	1.5	-

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 2015	31 March 2016
	£m	£m
Creditors		
Financial liabilities at amortised cost	(73.2)	(73.2)

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 undertaking at the end of the year that are due within 12 months. These balances have been split by type of organisation.

31 March 2015		31 March 2016
£m		£m
62.4	Central government bodies	48.6
12.2	Other local authorities	19.7
9.7	NHS bodies	5.0
0.1	Public corporations and trading funds	1.7
217.3	Other entities and individuals	206.2
301.7	**Total**	**281.2**

Note G11
Short Term Creditors

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

31 March 2015		31 March 2016
£m		£m
(30.3)	Central government bodies	(40.3)
(5.7)	Other local authorities	(5.8)
(5.9)	NHS bodies	(3.8)
(33.6)	Public corporations and trading funds	(36.2)
(263.4)	Other entities and individuals	(243.3)
(338.9)	**Total**	**(329.4)**

Note G12
Usable Reserves

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

31 March 2015		31 March 2016
£m		£m
332.5	General Fund	227.7
16.3	Capital Receipts Reserve	312.1
347.5	Earmarked General Fund Reserves	389.3
4.5	Housing Revenue Account (HRA)	4.7
15.8	Major Repairs Reserve	5.8
104.1	Capital Grants Unapplied	73.0
(279.0)	Profit and Loss Reserve	(144.2)
(8.7)	Designated Funds	(19.0)
(17.9)	Other Charitable Funds	(23.1)
4.8	Merger Reserve	4.8
519.9	**Total**	**831.1**

Further analysis is provided below for material usable reserves.

Movements in the General Fund are set out in the Council and Group Movement in Reserves Statements, further supported by Note 6 to the Council's entity accounts. Differences arising on group consolidation are set out in Note G21 to the Group Accounts.

Profit and Loss Reserve

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

2014/15		2015/16
£m		£m
(247.0)	**Balance at 1 April**	**(279.0)**
(32.0)	In year profit and loss result for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	134.8
(279.0)	**Balance at 31 March**	**(144.2)**

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 2015 £m		31 March 2016 £m
787.2	Revaluation Reserve	981.6
271.4	Capital Adjustment Account	(241.5)
(29.7)	Financial Instrument Adjustment Account	(27.9)
50.1	Deferred Capital Receipts	30.0
(2,356.1)	Pensions Reserve	(2,087.7)
(13.8)	Collection Fund Adjustment Account	(22.9)
(561.3)	Equal Pay Back Pay Account	(299.6)
(21.6)	Accumulated Absences Account	(16.9)
0.8	Available for Sale Financial Instruments Reserve	0.2
0.7	Called up Share Capital	0.7
4.5	Restricted Funds	5.6
8.2	Share Premium Account	-
(1,859.6)	**Total**	**(1,678.4)**

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

<u>Revaluation Reserve</u>

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of its Property, Plant, Equipment, Heritage Assets and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

For amounts arising in the Council, 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.

2014/15 £m		2015/16 £m
852.0	**Balance at 1 April**	**787.2**
	Revaluations not posted to Surplus/Deficit on the Provision of Services	
217.7	Council: Upward revaluation of assets	410.9
(101.6)	Council: Downward revaluation of assets	(80.1)
(124.2)	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	(73.3)
(8.1)	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**257.5**
	Amounts written off to the Capital Adjustment Account	
(9.4)	Council: Difference between fair value depreciation and historical cost depreciation	(8.3)
(25.7)	Council: Accumulated gains on assets sold or scrapped	(17.4)
(10.8)	Council: Adjustment for transfer of land to Investment Property	-
(45.9)	**Council: Amount written off to the Capital Adjustment Account**	**(25.7)**
	Group Movements	
-	Increase in Group's share of revaluation reserve resulting from increased stake in entity	
(10.8)	Other movements in reserve in Group entities	(37.4)
(10.8)	**Total Group Movements**	**(37.4)**
787.2	**Balance at 31 March**	**981.6**

Note G14
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2014/15 £m		2015/16 £m
(16.4)	Interest Received	(14.2)
201.5	Interest Paid	190.5
(6.2)	Dividends Received	(20.7)

Note G15
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following items:

2014/15		2015/16
£m		£m
(345.6)	Purchase of property, plant and equipment, investment property and intangible assets	(326.8)
(3,191.8)	Purchase of short-term and long-term investments	(3,289.0)
	Other payments for investing activities	
57.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	580.0
3,228.1	Proceeds from short-term and long-term investments	3,305.4
0.3	Other receipts from investing activities	0.6
	Net cash acquired with subsidiary	
(251.1)	**Net cash flows from investing activities**	**270.2**

Note G16
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following items:

2014/15		2015/16
£m		£m
68.7	Other receipts from financing activities	103.7
2,069.8	Cash receipts of short-term and long-term borrowing	1,055.0
(28.5)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(40.2)
(2,014.3)	Repayments of short-term and long-term borrowing	(1,211.8)
(3.6)	Other payments for financing activities	8.7
92.1	**Net cash flows from financing activities**	**(84.6)**

Note G17
Amounts Reported for Resource Allocation Decisions (Segmental Analysis)

Details of the Authority's Segmental Analysis are provided in Note 19 to the Council entity accounts.

Net expenditure reported to the Cabinet and Directorates detailed within Note 19 to the Council entity accounts is unchanged by the consolidation of the group entities and has therefore been excluded. The Segmental Analysis reconciliation to both the Cost of Services in the Comprehensive Income and Expenditure Statement and the Council's Subjective Analysis are as follows:

Reconciliation of Directorate Net Expenditure to Cost of Services in the Group Comprehensive Income and Expenditure Statement

	2014/15	2015/16
	£m	£m
Net expenditure	1,021.3	913.6
Amounts in the Group Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis	75.5	(17.7)
Amounts in the Group Comprehensive Income and Expenditure Statement related to Group Accounts Consolidation not reported to Cabinet in the Analysis	(16.5)	(7.9)
Amounts included in the Analysis not included in the Group Comprehensive Income and Expenditure Statement	(215.5)	(26.1)
Cost of Services in Group Comprehensive Income and Expenditure Statement	**864.8**	**861.9**

Reconciliation to Subjective Analysis

2015/16	**Directorate Analysis**	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(663.0)	62.0	6.6	0.0	**(594.4)**	(61.2)	**(655.6)**
Support service recharges	(349.7)	(64.1)	0.0	454.2	**40.4**		**40.4**
Collection Fund Surplus		0.0	0.0	0.0	**0.0**	(5.7)	**(5.7)**
Group consolidation subsidiary adjustments		(20.1)			**(20.1)**	(19.7)	**(39.8)**
Surplus on associates and joint ventures						(6.7)	**(6.7)**
Interest and investment income	(5.2)	0.0	5.2	0.0	**0.0**	(30.6)	**(30.6)**
Income from Council Tax		0.0	0.0	0.0	**0.0**	(271.2)	**(271.2)**
Government grants and contributions	(1,659.6)	0.0	106.5	0.0	**(1,553.1)**	(851.8)	**(2,404.9)**
Total income	**(2,677.5)**	**(22.2)**	**118.3**	**454.2**	**(2,127.2)**	**(1,246.9)**	**(3,374.1)**
Employee expenses	1,056.8	(72.7)	0.0	0.0	**984.1**		**984.1**
Other service expenses	2,118.1	(47.0)	0.0	0.0	**2,071.1**	66.1	**2,137.2**
Support service recharges	260.5	66.0	0.0	(454.2)	**(127.7)**		**(127.7)**
Collection Fund Deficit						15.8	**15.8**
Group consolidation subsidiary adjustments		12.2			**12.2**	20.4	**32.6**
Deficit on associates and joint ventures						0.3	**0.3**
Depreciation, amortisation and impairment	155.7	38.1	(92.6)	0.0	**101.2**		**101.2**
Interest payments and pensions costs		0.0	0.0	0.0	**0.0**	255.3	**255.3**
Precepts and levies		0.0	(51.8)	0.0	**(51.8)**	51.8	**0.0**
Payments to Housing Capital Receipts pool		0.0	0.0	0.0	**0.0**	6.6	**6.6**
(Gain)/Loss on disposal of non-current assets		0.0	0.0	0.0	**0.0**	40.2	**40.2**
Total expenditure	**3,591.1**	**(3.4)**	**(144.4)**	**(454.2)**	**2,989.1**	**456.5**	**3,445.6**
Group (Surplus)/deficit	**913.6**	**(25.6)**	**(26.1)**	**-**	**861.9**	**(790.4)**	**71.5**

2014/15

	Directorate Analysis	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(356.4)	60.4	(242.6)		(538.6)	(64.2)	(602.8)
Support service recharges	(423.9)			423.9	-		-
Collection Fund Surplus					-	(7.0)	(7.0)
Group consolidation subsidiary adjustments		(16.7)			(16.7)	(140.1)	(156.8)
Surplus on associates and joint ventures					-	(6.3)	(6.3)
Interest and investment income	(9.6)		9.6		-	(22.3)	(22.3)
Income from Council Tax					-	(261.8)	(261.8)
Government grants and contributions	(1,705.0)		116.5		(1,588.5)	(922.6)	(2,511.1)
Total income	**(2,494.9)**	**43.7**	**(116.5)**	**423.9**	**(2,143.8)**	**(1,424.3)**	**(3,568.1)**
Employee expenses	1,074.2	0.6			1,074.8		1,074.8
Other service expenses	1,966.5	(62.7)	(99.0)		1,804.8	68.0	1,872.8
Support service recharges	311.3	1.8		(423.9)	(110.8)		(110.8)
Collection Fund Deficit					-	5.4	5.4
Group consolidation subsidiary adjustments		0.2			0.2	126.5	126.7
Deficit on associates and joint ventures					-		-
Depreciation, amortisation and impairment	164.2	75.4			239.6		239.6
Interest payments and pensions costs					-	260.5	260.5
Precepts and levies					-	54.9	54.9
Payments to Housing Capital Receipts pool					-	5.7	5.7
(Gain)/Loss on disposal of non-current assets					-	73.1	73.1
Total expenditure	**3,516.2**	**15.3**	**(99.0)**	**(423.9)**	**3,008.6**	**594.1**	**3,602.7**
Group (Surplus)/deficit	**1,021.3**	**59.0**	**(215.5)**	**-**	**864.8**	**(830.2)**	**34.6**

Note G18
Related Parties

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

In addition to the related parties detailed within Note 48 to the Council entity accounts those included below are deemed to be related parties of the Group – bodies or individuals with the potential to control or significantly influence the Group entities or to be controlled or significantly influenced by the Group entities. Where in year transactions and outstanding balances between Group entities and associated related parties are £1m or greater, they are disclosed below. The Group entities and their relationships with the Council are detailed in Notes G23 and G24.

	Purchased From £m	Sold To £m	Net amount Due (To)/From £m
The National Exhibition Centre (Developments) PLC			
Performances Birmingham Limited			
Performance Birmingham (Enterprises) Limited			
Innovation Birmingham Limited			
Birmingham Science Park Aston Limited			
Birmingham Technology (Property) Limited			
Birmingham Technology (Property One) Limited			
Birmingham Technology Venture Capital Limited			
Birmingham Museums Trust			
Thinktank Trust			
Birmingham Museums Trading Limited			
Acivico Ltd			
Acivico Design Construction and Facilities Management Limited			
Acivico (Building Consultancy) Limited			
PETPS (Birmingham) Limited			
Paradise Circus General Partner Limited			
Paradise Circus Nominee 1 Limited			
Paradise Circus Nominee 2 Limited			
Birmingham Airport Holdings Limited			
West Midlands District Councils via (Solihull MBC)			(4.7)
Solihull MBC	Solihull MBC is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate.		
National Exhibition Centre Limited (disposed of on 1 May 2015)			
National Exhibition Centre (Ireland) Limited			
NEC Finance Plc			
NEC Pension Trustee Company Limited			
NEC Property (Number One) Limited			
MPM Catering Limited			
Sports Show Limited			

Note G19
Leases

Group as the lessee

Finance leases

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

Operating leases

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

Group as the lessor

Finance leases

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

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

31 March 2015 £m		31 March 2016 £m
	Finance lease debtor (net present value of minimum lease payments)	
-	- Current	-
7.7	- Non current	7.7
14.0	Unearned finance income	13.8
(0.1)	Unguaranteed residual value of property	(0.1)
21.6	**Gross investment in the lease**	**21.4**

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

	Gross investment in the lease		Minimum lease payments	
	31 March 2015 £m	31 March 2016 £m	31 March 2015 £m	31 March 2016 £m
Not later than one year	-	-	0.2	0.2
Later than one year and not later than five years	0.1	0.1	0.7	0.7
Later than five years	7.6	7.6	20.7	20.5
Total	**7.7**	**7.7**	**21.6**	**21.4**

Note G20
Defined Benefit Pension Schemes

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 10 and 11 to the Council entity accounts.

PETPS Limited
Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under the guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The 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 2014/15 for the Fund and the Scheme have been provided.

Balance Sheet

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

	31 March 2015	31 March 2016
	£m	£m
Present value of funded obligations	(177.8)	(171.2)
Fair value of plan assets	141.2	157.4
Deficit for funded plans	(36.6)	(13.8)
Unrecognised asset due to the asset ceiling	-	-
Retirement Benefit Obligation	**(36.6)**	**(13.8)**

Income Statement

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

	2014/15 £m	2015/16 £m
Operating Cost:		
Administration Expenses	-	0.4
Current Service Cost	-	-
Included in Operating Cost	-	0.4
Financing Costs:		
Interest cost on pension scheme liabilities	6.5	5.9
Interest income on plan assets	(5.5)	(5.3)
Net interest cost	1.0	0.6
Total income statement expense	**1.0**	**1.0**

Other Comprehensive Income

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

	2014/15 £m	2015/16 £m
Return on plan assets in excess of interest income	10.1	(4.1)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(24.9)	3.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.5	1.7
Actuarial gain/(loss) on liabilities due to experience	1.3	1.8
Remeasurement gain/(loss) recognised during the period	**(13.0)**	**3.4**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2014/15 £m	2015/16 £m
Beginning of Period	(152.8)	(177.8)
Interest Cost	(6.5)	(5.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(24.9)	3.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.5	1.7
Actuarial gain/(loss) on liabilities due to experience	1.3	1.8
Benefits Paid	4.6	5.0
Present value of obligation at 31 March	**(177.8)**	**(171.2)**

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

	2014/15 £m	2015/16 £m
Beginning of Period	128.2	141.2
Interest income on plan assets	5.5	5.3
Return on plan assets in excess on interest income	10.1	(4.1)
Contributions by employer	2.0	20.5
Administration expenses paid	-	(0.4)
Benefits paid	(4.6)	(5.0)
Fair value of plan assets at 31 March	**141.2**	**157.4**

Movements in the reimbursement right are as follows:

	2014/15 £m	2015/16 £m
Surplus/(Deficit) at start of year	(24.6)	(36.6)
Expense (charge)/credit	(1.0)	(1.0)
Employer contributions	2.0	20.5
Remeasurement gain/(loss) in Other Comprehensive Income	(13.0)	3.4
Surplus/(Deficit) at end of year	**(36.6)**	**(13.7)**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2015		31 March 2016	
	£m	%	£m	%
Equities, GTAA and hedge funds	66.0	47	74.6	47
Bonds and Cash	28.9	20	62.6	40
Property	13.0	9	13.8	9
Gilts	33.3	24	6.4	4
	141.2	**100**	**157.4**	**100**

Assumptions

The principal assumptions made by the actuary were:

	1 May 2015 %	31 March 2016 %
Discount rate	3.4	3.5
RPI Inflation rate	3.0	3.1
CPI Inflation rate	2.0	2.1
Future Pension increases		
- pension accrued prior to 5 April 2005	2.9	3.0
- pension accrued after 5 April 2005	2.1	2.1

The base mortality assumptions of the Fund are based on SAPS tables (S1 series) and for the Scheme are based on SAPS light tables (S1 series). Future improvements are based on the CMI 2015 projection with long term rate of improvement of 1.25% pa (2014/15: 1.25%).

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

	1 May 2015 Years		31 March 2016 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.2	23.9	22.0	23.7
Female: member aged 65 (current life expectancy)	24.6	25.2	24.4	25.0
Male: member aged 45 (life expectancy at age 65)	23.9	25.5	23.7	25.4
Female: member aged 45 (life expectancy at age 65)	26.5	27.1	26.3	26.9

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £8.8m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £9.3m
An increase of one year to life expectancy would increase the retirement benefit obligations by £6.4m
The duration of the plan liabilities is approximately 22 years

Expected Contributions for 2016/17

The Council is not expected to pay contributions in respect of the Fund or Scheme in the 2016/17 financial year.

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.

	2014/15 £m	2015/16 £m
Present value of funded defined benefit obligations	(48.9)	(49.7)
Fair value of plan assets	46.4	47.6
Net (Liability)/Asset	**(2.5)**	**2.2**

Movements in the present value of defined benefit obligation:

	2014/15 £m	2015/16 £m
Balance at beginning of period	38.1	48.9
Current service cost	1.2	2.3
Interest cost	1.8	1.6
Actuarial (gains)/losses	8.2	(3.2)
Contributions by members	0.4	0.6
Curtailment	0.1	-
Benefits paid	(0.9)	(0.5)
31 March	**48.9**	**49.7**

Movements in the fair value of plan assets:

	2014/15 £m	2015/16 £m
Balance at beginning of period	40.0	46.4
Interest on assets	1.8	1.6
Gain/loss on settlement or curtailment	4.3	(1.7)
Past service cost	-	-
Contributions	1.1	1.8
Benefits paid	(0.9)	(0.5)
31 March	**46.4**	**47.6**

Expense recognised in the profit and loss account:

	2014/15 £m	2015/16 £m
Operating Cost:		
Current Service Cost	1.2	2.3
Included in Operating Cost	1.2	2.3
Financing Costs:		
Interest cost on pension scheme liabilities	1.8	1.6
Interest income on plan assets	(1.8)	(1.6)
Net interest cost	-	-
Total income statement expense	**1.2**	**2.3**

Other Comprehensive Income

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

	2014/15 £m	2015/16 £m
Actuarial (gain)/loss on liabilities	8.2	(3.2)
(Gain)/loss on settlement or curtailment	0.1	-
Actuarial (gain)/loss on plan assets	(4.3)	1.7
Remeasurement (gain)/loss recognised during the period	**4.0**	**(1.5)**

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

	2014/15 Fair Value £m	2014/15 Fair Value %	2015/16 Fair Value £m	2015/16 Fair Value %
Equities	27.4	59	28.8	60
Government Bonds	3.7	8	3.7	8
Other Bonds	4.9	10	2.2	5
Property	4.0	9	3.9	8
Cash/Liquidity	1.9	4	2.2	5
Other	4.5	10	6.8	14
Total	**46.4**	**100**	**47.6**	**100**

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

	2014/15 %	2015/16 %
Discount rate	3.3	3.8
Future salary increases	3.8	4.0
Future pension increases	2.0	2.2

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below.

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

	31 March 2015	31 March 2016
Male: member aged 65 (current life expectancy)	22.9	23.0
Female: member aged 65 (current life expectancy)	25.5	25.7
Male: member aged 45 (life expectancy at age 65)	25.1	25.3
Female: member aged 45 (life expectancy at age 65)	27.8	28.0

Birmingham Museums Trust Limited

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

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown. The information for 2014/15 has been presented on the basis of FRS102 for comparative purposes.

	2014/15 £m	2015/16 £m
Present value of funded defined benefit obligations	(15.1)	(14.4)
Fair value of plan assets	13.8	13.8
Net (Liability)/Asset	**(1.3)**	**(0.6)**

Movements in the present value of defined benefit obligation:

	2014/15 £m	2015/16 £m
Balance at beginning of period	11.2	15.1
Current service cost	0.4	0.4
Interest cost	0.5	0.5
Change in financial assumption	2.9	(1.4)
Contributions by members	0.1	0.1
Past service cost, including curtailments	-	0.2
Benefits paid (net of transfers in)	(0.1)	(0.4)
31 March	**15.1**	**14.4**

Movements in the fair value of plan assets:

	2014/15 £m	2015/16 £m
Balance at beginning of period	11.7	13.8
Interest on assets	0.5	0.5
Return on assets	1.3	(0.5)
Contributions by employer	0.3	0.4
Contributions by members	0.1	0.1
Benefits paid (net of transfers in)	(0.1)	(0.4)
31 March	**13.8**	**13.8**

Expense recognised in the profit and loss account:

	2014/15 £m	2015/16 £m
Current service cost	0.4	0.4
Interest on defined benefit pension plan obligation	0.5	0.5
Curtailment	-	0.2
Expected return on defined benefit pension plan assets	(0.5)	(0.5)
Total	**0.4**	**0.6**

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

	2014/15 £m	2015/16 £m
Administrative expenses	0.4	0.4
Other interest receivable and similar income	-	0.2
	0.4	**0.6**

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

	2014/15 Fair Value		2015/16 Fair Value	
	£m	%	£m	%
Equities	8.1	59	8.4	61
Government Bonds	1.1	8	1.1	8
Other Bonds	1.5	11	0.6	5
Property	1.2	9	1.1	8
Cash/Liquidity	0.6	4	0.6	4
Other	1.3	9	2.0	14
Total	**13.8**	**100**	**13.8**	**100**
Actual return on plan assets:	1.8		(0.1)	

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

	2014/15 %	2015/16 %
Discount rate	3.4	3.9
Future salary increases	3.9	4.0
Future pension increases	2.1	2.2
Rate of CPI inflation	2.1	2.2

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2016 would have increased by £1.4m.

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

Life expectancy from age 65 years		2014/15	2015/16
Retiring today:	male	23.0	23.0
:	female	25.6	25.7
Retiring in 20 years:	male	25.2	25.3
:	female	28.0	28.0

Note G21
Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Groups Movement in Reserves Statement in order to reconcile the General Fund balance back to its Council position prior to funding basis adjustments being made.

	General Fund Balance £m	Earmarked General Fund Reserves £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**
2014/15											
Intra group loans	-						-		-	-	-
Intra group capital grants	(15.7)						(15.7)		(15.7)	15.7	-
Provision of goods and services to subsidiaries	1.6						1.6		1.6	(1.6)	-
Purchases of goods and services from subsidiaries	(53.7)						(53.7)		(53.7)	53.7	-
Intra group capital expenditure incurred by parent for subsidiary assets	-						-		-	-	-
Gain on intra group exchange of assets	-						-		-	-	-
Total adjustments between Group accounts and Council accounts	**(67.8)**	**-**	**-**	**-**	**-**	**-**	**(67.8)**	**-**	**(67.8)**	**67.8**	**-**
2015/16											
Intra group loans	-						-		-	-	-
Intra group capital grant											-
Provision of goods and services to subsidiaries	7.1						7.1		7.1	(7.1)	-
Purchases of goods and services from subsidiaries	(29.1)						(29.1)		(29.1)	29.1	-
Intra group capital expenditure incurred by parent for subsidiary assets	-						-		-	-	-
Gain on intra group exchange of assets	-						-		-	-	-
Total adjustments between Group accounts and Council accounts	**(22.0)**	**-**	**-**	**-**	**-**	**-**	**(22.0)**	**-**	**(22.0)**	**22.0**	**-**

Note G22
Analysis of Minority Interest Shares in Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet

This analysis is not intended as an analysis of the movement in the Minority Interest balance recorded in the balance sheet and so does not include such opening balances.

2014/15				2015/16		
Council	Minority Interests	Total		Council	Minority interests	Total
£m	£m	£m		£m	£m	£m
40.9	-	40.9	(Surplus)/Deficit on the provision of services	77.9	-	77.9
(6.3)	-	(6.3)	Share of Associates	(6.4)	-	(6.4)
468.6	-	468.6	Other Comprehensive (Income)/Expenditure	(607.4)	-	(607.4)
503.2	**-**	**503.2**	**Total Comprehensive (Income)Expenditure**	**(535.9)**	**-**	**(535.9)**
-	-	-	Changes in Equity	43.5	-	43.5
503.2	-	**503.2**	**Total movement in Balance Sheet**	**(492.4)**	-	**(492.4)**

Note G23
Subsidiary Companies

The Council maintains involvement with a number of subsidiary and associate companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group Financial Statements have been prepared in accordance with the Code.

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

I. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million by the company which is guaranteed by the Council. The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the report period covered by these financial statements.

The Council has loan notes totalling £0.8m (2014/15: £1.1m). The loan notes are repayable in instalments and repayments commended in 2014/15. The loss before and after tax for the year ended 31 March 2016, amounted to £1.2m (2014/15: £0.02m). The net assets of the company at 31 March 2016 amounted to £12.7m (2014/15: net liabilities of £2.3m).

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Included in the disposal of NEC Ltd, as set out in VII. below, were building assets held by National Exhibition Centre (Developments) Plc in respect of Halls 17-20, which formed part of the sale. These assets were categorised as Assets Held for Sale within the Group Financial Statements at 31 March 2015.

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

II. Innovation Birmingham Limited Group (Birmingham Technology Limited Group to 2 May 2013)

The Innovation Birmingham Group of companies aims to promote, encourage, and secure the development and management of a science park in Birmingham. The Council holds a debenture over the property of the group as security for its financial guarantees. The Council is the sole member of Innovation Birmingham Limited Group which is a company limited by guarantee. The Council is also entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council is exercised by its 71% share of directors voting rights. The Council's direct interest in Birmingham Technology (Property) Limited (a subsidiary company of BTL) is 1,250 £1 ordinary shares (12.5% interest). The Council also directly holds 500 £1 ordinary shares (9.1% interest) in Birmingham Technology (Venture Capital) Limited. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and as such dividends. The profit for the year for the group to 31 March 2016, amounted to £0.04m (2014/15: £0.8m), with the net assets at 31 March 2016 amounting to £0.5m (2014/15:£0.02m).

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this company.

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

III. Performances Birmingham Limited

Performances Birmingham Limited is the Charity that manages and runs the Birmingham Town Hall and Symphony Hall. The company is limited by guarantee and was founded by Birmingham City Council in collaboration with The University of Aston and Lloyds Bank in 1982. The Charity is solely controlled by the Council with the financial statements prepared in accordance with the Charity Commission's Statement of Recommended Practice. This means that there are restrictions on the use of the funds which are available to the Charity. The net income for the year for the group to 31 March 2016, amounted to £0.2m (2014/15: £0.1m net expenditure), with the net assets at the 31 March 2016 amounting to £2.1m (2014/15: £1.9m).

The year end of the charity is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this charity.

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

IV. Birmingham Museums Trust

Birmingham Museums Trust Group is a Charity that manages nine museum sites, namely, Birmingham Museum and Art Gallery, The Museum Collection Centre, Thinktank, Soho House, Aston Hall, Museum of the Jewellery Quarter, Blakesley Hall, Weoley Castle and Sarehole Mill. The Trust is a charitable company limited by guarantee, (the Council being sole member), and is controlled by the board of trustees The financial statements are prepared in accordance with the Charity Commission's Statement of Recommended Practice, which restricts the use of funds to charitable purposes, as defined in its objects. The net income for the year for the group to 31 March 2016, amounted to £0.3m (2014/15: £0.03m), with the net assets at the 31 March 2016 amounting to £4.8m (2014/15: £3.8m).

The year end of the charity is 31 March 2016 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the charity.

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

V. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by Birmingham City Council. The company was launched in April 2012, with three special purpose vehicles (SPVs), one holding company and two trading companies. The two trading companies, Acivico Design Construction and Facilities Management Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to Birmingham City Council and to other public and private sector clients. The Council has agreed to receive specified services from Acivico for the five years up to 31 March 2017. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The group made a loss after tax of £0.7m during the year to 31 March 2016 (2014/15: £0.5m profit) and the group's net liabilities at 31 March 2016 amounted to £1.4m (2014/15: net liabilities of £4.0m).

The year end of the company is 31 March 2016 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year end between the Council and Acivico Limited Group can be found within Note 48 of the Council's entity financial statements.

VI. PETPS (Birmingham) Limited

PETPS (Birmingham) Limited, a company limited by guarantee was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS 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.

The company had a total comprehensive income for the year ended 31 March 2016 of £nil and net assets of £nil. The company had no activity in the year ended 31 March 2015.

The year end of the company is 31 March 2016 and for the purposes of consolidation these accounts have been used.

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's entity financial statements.

VII. The National Exhibition Centre Limited Group

The Council disposed of its interest in The National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015. The sale agreed involved a number of transactions, the key ones of which were:

- Disposal of the Council interests in NEC Ltd;
- Transfer of the on-going funding of the NEC defined benefit pension schemes to a wholly owned subsidiary of the Council;
- Termination and re-signing of existing lease agreements.

The assets held in the Group financial statements that related to the disposal of NEC Ltd were categorised as Assets Held for Sale in the Council's Group Balance Sheet at 31 March 2015.

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

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

The Council, to the point of disposal, guaranteed the group's solvency and provided grant funding. At 31 March 2015, the Council had guaranteed loans of £192.4m (2014/15: £192.4m) to the Company. The group made a loss after tax of £0.1m during the year to 31 March 2015. The group's net liabilities at 31 March 2015 amounted to £8.9m.

The year end of the Group was 31 March 2015. For the purposes of the consolidation these group accounts were used for the 2014/15 financial year and management information was used up to the date of disposal for inclusion in the 2015/16 financial statements. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances at the year end between the Council and the National Exhibition Centre Limited Group can be found within Note 48 of the Council's entity financial statements.

The subsidiary that has not been consolidated into the Group Financial Statements is listed below

I. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited in 2014/15, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The company has not been consolidated into the Council's Group Financial Statements as the level of transactions and balances to date is not considered material to the Group. However, it is anticipated that the level of transactions will increase in subsequent years such that the company would be consolidated into the Group Accounts at the relevant time.

Note G24
Associate and Joint Venture Companies

The associates that have been consolidated into the group financial statements are listed below.

I. Birmingham Airport Holdings Ltd (BAH)

The main ordinary shareholders of Birmingham Airport Holdings Ltd (BAH)are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324.0m ordinary shares of 1p each (Birmingham City Council owns 18.7% that is 60.5m ordinary shares). 48.25% ordinary shares are held by Airport Group Investments Ltd which is owned by the Ontario Teachers' Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (The Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Operations Limited;
- Euro-Hub (Birmingham) Limited;
- Birmingham Airport (Finance) Plc;
- First Castle Developments Limited;
- Birmingham Airport Developments Limited;
- BHX Fire and Rescue Limited;
- Birmingham Airport Services Limited;
- BHX (Scotland) Limited; and
- BHX Limited Partnership.

The principal activity of the group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations.

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.7% within this 49% it is considered that the Council has greater power to influence the voting of 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 2015 £m		31 March 2016 £m
451.6	Non-Current Assets	471.5
39.9	Current Assets	132.5
(48.2)	Current Liabilities	(135.2)
(244.3)	Non-Current Liabilities	(342.8)
199.0	Net Assets	126.0
37.2	**Council Interest in Net Assets @ 18.68%**	**23.5**
121.0	**Revenue**	**130.5**
15.3	Post-Tax Profit/(Loss)	35.6
(80.6)	Other Comprehensive Income/(Expenditure)	(13.6)
(65.3)	Total Comprehensive Income/(Expenditure)	22.0

The carrying value of the Council interest in this entity is £23.5m (2014/15: £37.2m), which is included with the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

Birmingham Airport Holdings Limitedd at 31 March 2016 has disclosed four existing contingent liabilities within its financial statements:

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

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75 million private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30 million are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45 million are for a period of fifteen years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;

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

II. Service Birmingham Limited

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

The year end of the company is 31 December 2015, in line with that of its parent company Capita PLC. For the purposes of the consolidation these accounts have been used as they fall within three months of the Council's year end, with adjustments being made for the three month periods at the start and end of the reporting year. There was no qualification on the audit opinion for these audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2015 £m		31 March 2016 £m
7.2	Non-Current Assets	5.0
39.4	Current Assets	31.2
(41.1)	Current Liabilities	(30.8)
-	Non-Current Liabilities	-
5.5	Net Assets	5.4
1.7	**Council Interest in Net Assets @ 32%**	**1.7**
96.7	**Revenue**	**83.9**
10.7	Post-Tax Profit/(Loss)	8.4
(12.5)	Other Comprehensive Income/(Expenditure)	-
(1.8)	Total Comprehensive Income/(Expenditure)	8.4

The carrying value of the Council interest in this entity is £1.7m (2014/15: £1.7m), which is included within the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

III. Paradise Circus Limited Partnership

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

The year end of the company is 30 June 2015. For the purposes of the consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2016. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2015 £m		31 March 2016 £m
-	Non-Current Assets	6.7
-	Current Assets	13.9
-	Current Liabilities	(14.3)
-	Non-Current Liabilities	(6.8)
-	Net Assets	(0.5)
-	**Council Interest in Net Assets @ 50%**	**(0.25)**
-	**Revenue**	**17.4**
-	Post-Tax Profit/(Loss)	(0.5)
-	Other Comprehensive Income/(Expenditure)	-
-	Total Comprehensive Income/(Expenditure)	(0.5)

The carrying value of the Council interest in this entity is a net deficit of £0.25m (2014/15: £nil), which is included within the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

Annual Governance Statement 2015/16

Annual Governance Statement 2015/16

1. Scope of responsibility

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

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

1.3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available as part of the Council's Constitution on the website. This statement explains how the Council has complied with the code and also meets the requirements of *The Accounts and Audit Regulations 2015*, 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. Governance is about the Council ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

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

2.3. 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.

2.4. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

3. The governance framework

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

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

3.2. The Council Business Plan and Summary Budget 2016+ (The Plan) sets out the Council's vision and priorities in terms of the Council's contribution to strategic outcomes. The Plan is updated each year and is available on the Council's web-site.

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

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

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

3.6. The Council's planning framework is set in the context of the wider city leadership and governance, such as: the City Plan and Vision (in development); the Combined Authority Plan (in development) and the Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the West Midlands Combined Authority). This framework will be the vehicle by which the Council's vision 2020 will be implemented in conjunction with partners. It is set out in the diagram overleaf.

3.7. The above diagram shows the high level sequence to achieve the vision 2020, including: creating the Future Council through the Future Council Programme; the implementation of the improvement plans; the directorate/service plans and the performance framework through which the Council will monitor and evaluate.

3.8. The vision 2020 is based on the fundamental ideals of prosperity, fairness and democracy, and, within that, to have a strong economy; safety and opportunity for all children; a great future for young people; thriving local communities; a healthy and happy city, and a modern council

3.9. Due to the scale of funding reductions required and changing times in which the Council operates, there is recognition of a need for change in how the Council must work if it is to deliver the vision 2020. To address this, the Future Council Programme was set up during 2015 to deliver an integrated and strategic approach to managing the necessary changes. This has taken on board all the recommendations of the Kerslake review of corporate governance (published in December 2014), and the advice and support from the Birmingham Independent Improvement Panel (BIIP) set up in January 2015.

3.10. As part of the process for the BIIP to assess the Council's progress, the Council was asked to undertake its own self-assessment structured on the major themes which underpinned its improvement plan. The 'gap analysis' set out what the Council had achieved so far, where further progress was needed, where the Council intended to be in six months' time, key priorities to focus on and the risks that the Council needed to be prepared to address. Measures were included which the Council will monitor against. In March 2016, the BIIP reported on the positive progress the Council had made in implementing the recommendations of the Kerslake Report and recommended stepping back from the intensive review process.

3.11. The Council has adopted a new approach by looking at how it can meet the needs of citizens, through providing services directly, and a renewed focus on how it can work with partners to achieve shared aims. The Council's role, with other civic and civil leaders, is to agree the vision for Birmingham and lead the city as a joint enterprise.

3.12. The proposals for change are divided into six key themes which aim to better meet citizens' needs, make substantial savings and improve the Council's performance. They are:

- **Prevent family breakdown** - seeking to support disadvantaged families through a range of interventions so their children can thrive.
- **Maximise the independence of adults** - with Birmingham a city where getting older is a positive experience.
- **Sustainable neighbourhoods** - creating an environment which is more sustainable, reduces costs and is better for the health and wellbeing of residents.
- **Economic growth and jobs** - economic development and support for job creation, skills training and sustainable business growth can impact greatly on the prosperity and wellbeing of the city.
- **Changes to the workforce** - our direct workforce will be smaller reflecting that outcomes and services will be delivered through new models where staff will not necessarily be directly employed by the Council.
- **Council-wide** - we will continue to work more efficiently, redesigning our services so they are as lean as possible.

3.13. Profound change across local government is also underway. New city-regional leadership will be put in place through the West Midlands Combined Authority, with new powers devolved from central government to allow the Council to drive economic growth, investment and the reform of public services. The Council will become more strategic and much smaller. There will be new ways of delivering local services and new ways people can engage in their local community, such as the recently formed local council for Sutton Coldfield.

3.14. The Council has a strong public, third sector, and business engagement role. There is an established Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements is led by Overview and Scrutiny.

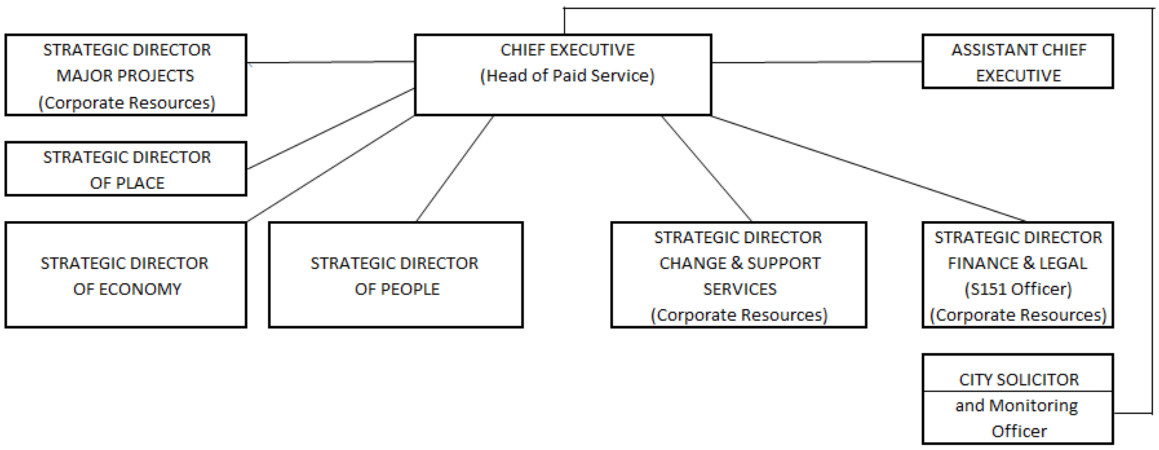
3.15. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic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

Roles of Members and Officers

3.16. The Council's Constitution is codified into one document which is available on the intranet and the Council's website. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by The Monitoring Officer and any amendments are agreed at the Annual General Meeting. A revised and updated Constitution was agreed in May 2015. Further amendments were made during the year with the latest amendments made in March 2016. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.17. The Council operates within four Directorates, Economy, Corporate Resources, People and Place.

Management Structure



3.18. In November 2015, Councillor John Clancy was elected as the new Leader of the Labour Party and was formally confirmed as Leader of the Council on 1st December 2015.

3.19. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2015/16 financial year: The Leader, Deputy Leader and eight specific Cabinet Member Portfolios based on a thematic structure as follows:

- Cabinet Member – Children's Services
- Cabinet Member – Commissioning, Contracting and Improvement
- Cabinet Member – Development, Transport and the Economy
- Cabinet Member – Sustainability
- Cabinet Member – Health and Social Care
- Cabinet Member – Neighbourhood Management and Homes
- Cabinet Member – Skills, Learning and Culture
- Cabinet Member – Inclusion and Community Safety.

3.20. On 24th May 2016 it was agreed at City Council that Cabinet would continue with ten members; The Leader and Deputy Leader and eight Cabinet Members with the following portfolios:

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

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

3.22. 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.

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

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

3.25. The Council's Constitution sets out the responsibilities of both Members and senior managers. In particular the Council has identified four statutory posts as follows:-

Head of Paid Service - Chief Executive

Chief Finance Officer - Strategic Director - Finance and Legal
Monitoring Officer - City Solicitor
Scrutiny Officer - Head of Scrutiny Services

3.26. Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Strategic Directors.

Financial Management Arrangements

3.27. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Role of the Chief Financial Officer:

- The Chief Finance Officer (CFO) is a key member of the Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy.
- The CFO leads the promotion and delivery by the whole authority 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 Strategic Director - Finance and Legal as the Council's CFO:

  - leads and directs a finance function that is resourced to be fit for purpose; and
  - is professionally qualified and suitably experienced.

Values and standards of conduct and behaviour

3.28. The Council has a Code of Conduct for Members and a Code of Conduct for Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received. All Council employees participate through work groups in developing actions based on these values which assist in ensuring effective service delivery and the development of the whole organisation.

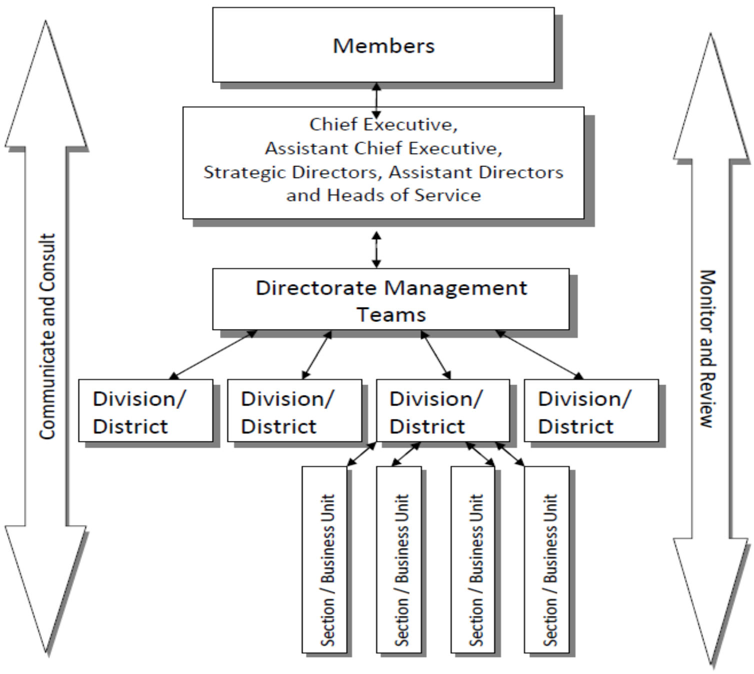
Scrutiny, Accountability and Risk Management

3.29. 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.

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

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

3.32. Risk management continues to be embedded within the Council. The diagram overleaf illustrates how risk is managed:



3.33. The Risk Management Policy, Strategy and Methodology 2016 have been placed on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported three times a year to the Audit Committee. Corporate risks are reviewed monthly by the Corporate Leadership Team. In addition business plans at directorate and divisional level include key risks.

3.34. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Communications Technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Capacity and Capability

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

3.36. The Council has in place a strategy for facilitating the implementation of the savings proposals including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects. In addition there are number of work streams focused on continued performance priorities which include the improvement agenda in Children's Services, improving attendance across the Council and ensuring a robust framework for terms and conditions and pay are in place to eradicate any potential for further equal pay risks.

3.37. The Future Council sub programme, Forward: The Birmingham Way is working to provide a framework that will support the workforce to be the right people doing the right things in the right way.

3.38. In addition to the Members Development Programme, Councillors have access to e-learning through the Members portal on People Solutions and are regularly kept up to date on training and development via the City Councillor bulletin circulated by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. Regular monthly 'market places' and briefing sessions are held to keep Councillors up-to-date with Council Services or services provided by Partner Organisations. Group Offices encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative.

3.39. The Members' development programme in 2015/16 was delivered around four areas as outlined in the table below:

New Member Induction	On-going Member Development
Aim: To give oversight of council processes and procedures to enable new members to get quickly up to speed with their role	**Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities**
• Understand role and responsibilities, the Council's values & behaviours, define new development offer	• Skill development (e.g. running surgeries, media training and dealing with conflict) ; networks and external visits
• Managing casework, code of conduct and the constitution	• A survey poll of all members for targeted training
• Who's who in Birmingham, customer intelligence and access to IT and council services	• Community leadership development (i.e. place shaping, partnership, civic and civil)
• 1-2-1's	• Future roles and responsibilities - progressing to Chair/Vice Chair/Cabinet; how member roles are changing
Scrutiny, District & Deputy Chairs	Member/Officer Relationship
Aim: To develop good community governance with effective and positive scrutiny	Aim: members and officers share understanding about their roles and responsibilities and how they work together
• Understand the new constitution, roles and responsibilities and what it means in practice	Member & Officers – redefined roles & expectations, supported by development programme
• Future District Delivering Differently programme overview and how to implement locally	• Underpinning behavioural standards, the new constitution and community governance with outward place focus
• Joint session with Scrutiny and District Chairs/Vice Chairs on new ways of working together	

3.40. During 2015/16, the 'My Appraisal' review process for all staff was introduced. This streamlined the personal review process and enabled a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

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

<u>Engagement with the community and other stakeholders</u>

3.41. 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 Business Plan 2016+ consultation process included public meetings led by the Council's Leader and Cabinet, consultation via online webcast question and answer sessions with Cabinet Members, consultation via post, mail, text and through the City's website, consultation with business representatives, young people and focus groups from Birmingham's People's panel and meetings with staff and Trade Unions.

3.42. 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.

3.43. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. Directorates have extensive programmes of consultation and engagement activity for specific services.

4. **Review of effectiveness**

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

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, 'Delivering Good Governance in Local Government' and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. During 2015/16 a fundamental review to both strengthen and streamline the process was undertaken. The process requires each Directorate and significant areas of service delivery / business units within a directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

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

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

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

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

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

4.8. From the work undertaken by Birmingham Audit in 2015/16 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to EMCB. The more significant of these are set out in the section entitled '**Significant governance issues 2015/16'** below.

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

4.10. The Council's Corporate Resources Overview and Scrutiny Committee received reports on key control issues throughout 2015/16 including budgetary monitoring, risk issues including responding fully to the Kerslake Review recommendations and implementing the Future Council Programme and direct reports from The Deputy Leader.

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

4.12. The Monitoring Officer advises that there were 136 whistleblowing complaints in the 2015/16 financial year. On 12th January 2015, a revised whistleblowing policy was implemented and members of the public as well as staff may now use the procedure. This has resulted in a greater number of complaints. Each complaint is reviewed and investigated where appropriate.

5. Review of 2014/15 governance issues

5.1. During 2015/16, the significant 2014/15 governance issues were considered by Audit Committee in June, with updates in November 2015 and March 2016. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience and Equal Pay.

5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues originally raised within Lord Warner's Report and governance in schools.

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

5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. Work continues to embed the processes into 2016/17 and beyond.

6. Significant governance issues 2015/16

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

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	Safeguarding children remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2016/17 and future years.	The Council has launched an operating model which sets out the vision, values, direction and shape of the service. A Practice Evaluation Programme has been introduced. A clear performance framework that provides challenge and accountability

Issue No	Governance Issue	Mitigation Action / Proposed Action
	The Care Act 2014 sets out the legal requirements for adult safeguarding.	at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.
2	The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years. Given the Council is in the sixth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high.	Service Reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. By focussing on its Future Council 2020 vision, the Council has agreed its 2016/17 budget and a multi-year financial strategy to deliver the vision
3	The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for the external auditors and increasing demands to evidence Going Concern.	The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.

Issue No	Governance Issue	Mitigation Action / Proposed Action
4	From the review of governance arrangements made by Lord Kerslake and following the BIIP's review, work on the Future Council Programme continues. This includes: • Clear values, purpose and vision for the future Council, along with its future operating model; • A medium term outcomes-driven council and financial plan to take the Council to 2020/21; • Strategic alignment of outcomes, resources, policy-making, service delivery, governance and roles and responsibilities; and • Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.	Develop the Future Council Programme to: • Define the vision for the Council. • Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model. • Create an agile and adaptive organisation. • Deliver the actions set out in the Organisation Improvement Plan, developed in response to the Kerslake review and BIIP.
5	The Council is seeking ways to improve effective partnership working, such as working with neighbouring authorities through establishing the combined authority and taking forward the devolution deal. The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs. Options may include: • Using or considering alternative delivery vehicles. • Outsourcing of services.	The partnership with neighbouring authorities and the devolution deal the Council signed with the Chancellor of the Exchequer in November 2015 are major steps forward for Birmingham and the West Midlands. The Council must continue to work closely together through the next vital stages as it establishes the Combined Authority and begins to implement devolution - making sure that work leads to permanent benefits for the region. The Future Council Sub programme Outward Looking Partnerships is reviewing the way the Council works with its partners - working equally to a common shared purpose.

Issue No	Governance Issue	Mitigation Action / Proposed Action
	• Commissioning services.	Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.
6	The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies. These organisational changes can impact on the productivity and efficiency of the organisation through the loss of experienced staff; impacts on the morale of the workforce, with the potential negative consequences on employee relations and increased the potential for industrial action.	Through the Future Council Programme: Forward the Birmingham Way, a new employee engagement programme is focused on redefining organisational and employee expectations and requirements. In the forthcoming year the significant budget reductions including the proposals for the new workforce contract may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.

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

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

Signed ………………………………
Councillor John Clancy
Leader of the Council

Signed …………………………..
Mark Rogers
Chief Executive
(& Head of Paid Service)

Signed ………………………………
Jon Warlow
Strategic Director - Finance & Legal
(& Chief Finance Officer)

Signed ………………………..
Stuart Evans
Interim City Solicitor
(& Monitoring Officer)

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Birmingham City Council this is the Strategic Director – Finance & Legal who also has the role of Section 151 officer;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- approve the Statement of Accounts.

The Section 151 Officer's Responsibilities

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

- selected suitable accounting policies and applied them consistently;

- made judgments and estimates that were reasonable and prudent;

- complied with the Code.

The Section 151 Officer has also:

- kept proper accounting records which are up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certification of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

. . . .

Jon Warlow, Strategic Director – Finance & Legal
22 June 2016

Glossary

Academy School
A school that chooses to opt out of Local Authority control and receive its funding direct from the Education Funding Agency.

Accruals
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Amortised Cost
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

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

Balances
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

Beacon Properties
In valuing the Housing Stock the Council's properties are grouped into similar types and a sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

Capital Charge
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital Expenditure
Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

Capital Receipt
Money received from the disposal of land and other non-current assets, and from the repayment of grants and loans made by the Council.

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

CIPFA/SOLACE
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

Collection Fund
A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of national non-domestic rates (NNDR) collected.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement (CIES)
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, but for which payment has not been made by the end of the year.

Current Value
Current value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The current value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below)

Debtors
Sums of money owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

Deferred Capital Receipts
These represent income that is still due following disposal of a non-current asset.

Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
This is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

Earmarked Reserve
A sum set aside for a specific purpose.

Effective Interest Rate
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Emoluments
Payments received in cash and benefits for employment.

Events After the Reporting Period
Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

Existing Use Value
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Fair Value
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges
Income arising from the provision of services, for example, the use of leisure facilities.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

General Fund
The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.

Government Grants
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to a local authority, in return for past or future compliance with certain conditions relating to the activities of that local authority.

Heritage Assets
Assets that the council intends to hold for the purpose of informing or educating the public about their heritage, and which are not held for their investment value. Examples include collections of antiques in museums.

Housing Revenue Account (HRA)
A separate account detailing the expenditure and income arising from the provision of council housing.

Impairment
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

Infrastructure Assets
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

Intangible Assets
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm’s length.

Investments
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor’s ability to dispose of the investment.

Lender Option Borrower Option (LOBO)
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

Liabilities
Amounts due to individuals or organisations, at the balance sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

Market Value
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Materiality
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

Movement in Reserves Statement (MiRS)
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

National Non-Domestic Rates (NNDR)
Rates that are levied on business properties.

Net Book Value
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

Precept
Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), that cannot directly raise council tax themselves.

Prior Period Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)
A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.

Property, Plant and Equipment
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

Provisions
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

Related Parties
There is a detailed definition of related parties in FRS8, *Related Party Disclosures*. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

Reserves
Reserves are reported in two categories.

Usable Reserves
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for

example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable Reserves
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

Revenue Support Grant (RSG)
A grant from Central Government towards the cost of providing services.

Soft Loan
Loans at nil or below prevailing interest rates are often referred to as soft loans.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

To follow on completion of the audit.

Audit Committee
Progress and Update Report for Birmingham City Council

Year ended 31 March 2016

July 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

We have included an overall summary of progress in delivering this year's audit and provided feedback on the outcomes of our interim audit work. We have also taken the opportunity to include short briefings on current issues and our latest publications.

Members of the Audit Committee can find further useful material on the Government and Public sector page of our Insights website (http://www.grantthornton.co.uk/en/insights/).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 30 June 2016

Progress against plan

On track

Opinion and VfM conclusion

Plan to give before deadline of 30 September 2016

Outputs delivered

Fee letter, Progress Reports, delivered to plan

2015/16 work	Completed	Comments
Fee Letter We issued the planned fee letter for 2015/16 in April 2015.	April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit Committee.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements. We also inform you of any subsequent changes to our audit approach.	March 2016	Presented to the Audit Committee in March 2016.
Interim accounts audit Our interim fieldwork visit included: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing	March 2016	Interim audit findings for the work completed to date are included in this report (pages 7 - 9). As part of our formal communication between auditors and the council's Audit Committee, as 'those charged with governance', we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This was also presented to the Audit Committee in March.

Progress at 30 June 2016 (continued)

2015/16 work	Completed	Comments
Final accounts audit Including: • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts	Planned for June - August, In Progress	The financial statements were sent to us on 13th June and our audit is now in progress. The early delivery of this complex set of accounts is a notable achievement by the Financial Accounts Team. We are planning to complete our audit by 31st August as part of the transition to the earlier closedown and audit cycle that is required from 2018. We are working with the Financial Accounts Team to support improvements in accounts production efficiency and the project management of the audit
Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	Field work in March – July , In Progress	We have considered the potential significant risks for our VfM conclusion and identified the following issues: - Future Council - Savings challenge - Health and social care funding - Services for vulnerable children - Management of Schools - Improvement Panel - Equal pay We have begun to carry out key document reviews and interviews to inform our conclusion. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.
Other activities We provide a range of workshops, along with network events for members and publications to support the Council. Meetings with Members, Officers and others.	On-going	We are continuing to hold regular meetings with key members, the Chief Executive and Strategic Directors. We also have meetings planned with the Children's Commissioner and the Vice Chair of the Improvement Panel

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised below.

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. We have also considered the outcome of internal audit's work on the Council's key financial systems to date.	Overall, we have concluded that the arrangements for internal audit contribute to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses in these overall controls which are likely to adversely impact on the Council's financial statements
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our testing strategy. We have carried out testing of material journal types from months 1 to 9, and extracted journals with 'unusual' criteria for detailed review.	We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. Further work will be completed at the final accounts visit to update our journals testing to the year end, including coverage of both material and non-material journals types.
IT controls	We have undertaken a detailed review of the general IT control environment, as part of the overall review of the internal controls system. We considered the progress made to implement the recommendations made in 2014/15.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. .

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements – namely employee remuneration and operating expenses.	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. Our walkthrough testing confirms that internal controls have been implemented by the Council in accordance with our documented understanding and our work has not identified any weaknesses which impact on our planned audit approach. We have also commenced walkthrough tests of controls relating to property, plant and equipment. Some of these controls are year end controls so we will complete the walkthrough testing during our final account visit. Testing to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Employee remuneration	In our testing completed to date we have: • Performed a trend analysis for the full year to identify areas which may require additional procedures. • Tested a sample of items of payroll expenditure for the full year to relevant documentation to confirm the accuracy of pay.	Our work on Employee Remuneration is substantially complete. To date our work has not identified any issues that we wish to highlight for your attention. Further testing will be carried out at our accounts audit visit to finalise our work including review of any fluctuations identified via our trend analysis, and updating our testing of a sample of payroll expenditure.
Operating expenditure	We tested a initial sample of operating expenses from months 1 to 9 to ensure they are valid expenses and have been accurately accounted for in the correct period.	Our work has not identified any issues that we wish to highlight for your attention.
Housing benefit expenditure	In our testing completed to date we have: • Confirmed the correct parameters have been entered into the housing benefit system	Our work completed to date has not identified any issues that we wish to highlight for your attention. Further testing will be carried out at our accounts visit, to include testing based on the 'HB COUNT' approach as in previous years.

Results of interim audit work (continued)

	Work performed	Conclusion
Assets	In our testing completed to date we have: • Verified a sample of the Council's property assets to the deeds. • Verified the existence of a sample of the Council's property, plant and equipment assets.	Our work to date has not identified any issues that we wish to highlight for your attention.
Opening balances	We have confirmed that the opening balances brought into the general ledger for 2015/16 are in agreement with the audited balance sheet for 2014/15.	No matters to bring to your attention.

Emerging issues

Brexit: What happens next and what does it mean for you?

How is the Council responding to the outcome of the EU referendum?

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website and we have attached copies to this report.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which explores how we can build a vibrant economy. You can find out more here: http://vibranteconomy.co.uk/

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Better Together: Building a successful joint venture company

Grant Thornton reports

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report can be downloaded from our website:

http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/

Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

The full report is available at:

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles- based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

<Integrated Reporting>

Further information is available on the IIRC's website

Grant Thornton
An instinct for growth™

EU Referendum: the mechanics of leaving

How does the UK go about leaving the European Union?

UK votes 'leave' on 23 June

The referendum doesn't formally trigger the leaving process – this is done by invoking Article 50.
Article 50 outlines the process a country must use to withdraw from the EU:

- A two year period of negotiations begins when the UK government formally notifies EU Council President Donald Tusk of the UK's intention to leave the EU (the timing of the notification is within the gift of the UK government) – Negotiators may want some time to prepare the ground with EU leaders and may wait at least 6 weeks, the legal period for legal challenge to the result, before triggering.
- During the 2 year period:
  - EU law still applies, including free movement and paying EU membership, until a deal is made or time runs out.
  - The UK cannot participate in discussions of the European Council regarding its withdrawal. The power balance during this period is deliberately weighted towards the remaining 27 EU countries.

Andrew Duff, a former Liberal Democrat MEP, who helped draw up Article 50 notes:
"The EU could not allow a seceding state to spin things out for too long. The clause puts most of the cards in the hands of those that stay in"

Is an agreement reached within the 2 year period?

YES

It must now be ratified by a qualified majority of the 27 other countries on the European Council and their national parliaments. The European Parliament must endorse the deal.

N.B. It is not yet clear whether UK Parliament will be asked to ratify the agreement

NO

The period of negotiation can be extended with a unanimous vote from the remaining 27 member states on the European Council.

If an extension is not agreed, the UK leaves the EU immediately.
It will likely be in both the EU and the UK's interests to continue negotiating

Can the UK change its mind?
Should it wish to, though extremely unlikely, it might be possible for the UK to reverse its decision to leave as it is not explicitly prohibited.

Timescale
44 years of treaties and laws will need to be untangled and adjusted, this is unlikely to be done quickly.

There is speculation that it will take 10 years before market access, labour agreements and trade rules are agreed – it could be that nothing is agreed until it is all agreed, including labour movement and any cash contribution by the UK.
Much depends on the type of economic relationship the UK wishes to move to and how much detail must be agreed before we leave.

Has anyone left the EU before? Case study: Greenland

REFERENDUM 1982

POPULATION 56,000

REASON IT LEFT FISHING POLICY

TIME TO LEAVE 3 YEARS

Background
Greenland voted to leave the EU in 1982, following the introduction of the Common Fisheries Policy.
With an economy primarily based on its fishing industry, they felt that the new policy would be detrimental to their interests.

Complications
- Greenland still falls under the Danish crown, so its people are EU citizens.
- The rules attached to selling to the single-market still apply to Greenland.
- Greenland now holds 'overseas country and territory status', allowing it to retain trade privileges. It is unlikely the UK would be treated similarly.

Verdict
Greenland was negotiating on one issue, which took 3 years. UK might be a higher priority, but there are many more issues at stake.

Points to consider: What situation will the UK find itself negotiating in?

- A vote to leave may spark a **leadership contest in the Conservative party.**
  The timing of this is important as the Prime Minister will set the agenda over the negotiation period.
- It is worth noting that the **majority of MPs are Pro-EU.**
  This may affect the debates in Parliament, treaty negotiations and relationship with the public.
- There is also the political context across Europe to consider. There are upcoming **national elections** in **France** (April 2017), **Germany** (September 2017) and **Poland** (2019). The EU is facing mass migration, conflict on its borders, medium term energy issues, stagnant domestic growth, uncertainty over the Eurozone and increasing euroscepticism. How this will affect the make-up of the Council and impact on negotiations is unknown.

Source: Treaty of Lisbon/Global Counsel/BBC/Financial Times/FullFact

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Looking ahead: A new relationship with Europe?

The people of the UK have taken the decision to leave the European Union. What happens next – and the implications for businesses and organisations in the UK – is less clear.

It is now up to the UK Government to decide on what economic relationship it would seek to replace our current EU membership. To provide an overview of the available options, we set out the possible models the UK may look to negotiate.

Post-Brexit economic arrangements

What might our future relationship with the European Union look like?

KEY COLOURS: Yes · No · Unsure

KEY

- Access to the Single Market
- Tariff-free trade in goods
- Passporting of banks from the UK
- Avoid EU regulation domestically
- Ability to influence EU regulations
- Freedom to independently pursue trade deals
- No contribution to EU budget
- Freedom to dictate immigration controls

Norwegian-style EEA agreement:

- UK joins European Economic Area (EEA) – full access to the single market but it must adhere to EU standards and regulations over which it has no say and contributions to the EU budget will continue. Norway is currently paying more per head for membership of the EEA than the UK does as an EU member.

Swiss-style bilateral accords:

- The UK's relationship would be based upon a series of bilateral agreements negotiated on a case by case basis. Switzerland has access to the free trade of goods but not financial services. The UK would need to pay for this, comply with regulations and accept the free movement of people.

Free Trade Agreements:

- A series of Free Trade Agreements (FTA) would dictate our relationship with the EU. Tariff barriers would be unlikely to apply but the EU has the power to impose other restrictions. While this option provides the opportunity to implement immigration controls, there are question marks around the time it would take to implement.

Turkish-style customs union:

- Internal tariff barriers would be avoided. The UK would adopt EU standards and regulations, without influence over them. No financial contributions would be made and the UK would be free to impose immigration controls. However the UK would be required to implement EU external tariffs, without influence or guaranteed access to third markets.

World Trade Organisation (WTO) model:

- The UK can negotiate its own trade deals and set its own tariffs on imports. We would face 'most favoured nation' tariffs when trading with the EU if no FTA is in place. This option guarantees the most independence on regulations and immigration and doesn't require paying into the EU budget but membership of the single market is sacrificed. According to the WTO, the additional tariffs on goods imports would cost British consumers £9bn and exporters could face an extra £5bn of tariffs.

Sources:
House of Commons Library/Institute of Fiscal Studies/Global Counsel

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Scenario planner – Impact of 'Brexit'

The people of the UK have taken the decision to leave the European Union. What happens next – and the implications for businesses and organisations in the UK – is less clear.

There will be a wide range of dynamic factors at play over the coming months and years that will affect the impact on your organisation. Grant Thornton has produced a prediction of how these could pan out. This is a provocative scenario to help business planning; it should be noted that the reality may be very different.

<table>
<tr><th></th><th>First 100 days</th><th>2 years</th><th>Long term</th></tr>
<tr>
<td>Economic</td>
<td>Initial shock?
Market volatility
Fall in London listings
Sterling falls? Analysis from HSBC suggests that the pound would drop by about 15-20% against the dollar. [link]</td>
<td>Instability and uncertainty?
The UK continues to have access to the single market and is treated as a full member during the negotiation period
Investment decisions may be delayed until there is greater clarity over the UK's future trading relationships
IMF estimates increased inflation and fall in consumer spending</td>
<td>Gradual transition?
The long-term economic consequences are disputed, though the majority predict a negative long-term impact. Forecasts include:<table><tr><th>Org.</th><th>Effect of GDP, 2030</th></tr><tr><td>Open Europe</td><td>-2.60 to +1.55</td></tr><tr><td>LSE</td><td>-2.60 to -1.30</td></tr><tr><td>Oxford Economics</td><td>-0.39 to -0.10</td></tr></table></td>
</tr>
<tr>
<td>Business behaviours</td>
<td>Dealing with uncertainty
Investment decisions delayed
Some immediate disinvestment</td>
<td>Period of business transition?
Some decisions still delayed; other businesses may take decisions within first 6-12 months (not wait for political / legal settlement)</td>
<td>New business models embedded?
With our new relationship taking shape businesses have adapted to the new environment</td>
</tr>
<tr>
<td>Political</td>
<td>Instability
Government likely to trigger Article 50 quickly – David Cameron:
"If the British people vote to leave, there is only one way to bring that about, namely to trigger Article 50 of the Treaties and begin the process of exit, and the British people would rightly expect that to start straight away"
Leadership in government and Opposition will be wounded, potentially challenged
The majority of MPs are pro-EU and there is no clear plan for parliament to negotiate Brexit</td>
<td>Continued instability
Domestic uncertainty:
Leadership may change, divisions in the parties may increase and government may struggle to command its parliamentary majority – possible election?
Constitutional issues:
Scotland may push for independence
Northern Ireland: Good Friday agreement stretched as dependent on open border with Republic of Ireland
International uncertainty:
Elections in: US (November 2016), France (spring 2017), Germany (Sept 2017), Poland (2019)</td>
<td>Realignment for 2020 elections?
Realignment and clarity:
New leadership in main parties by 2020 and agreement on their post-EU policies
Either majority government or hung Parliament 2020</td>
</tr>
<tr>
<td>Legal & regulatory</td>
<td>No change
Government notifies EU of intention to leave, triggering Article 50. There is now two years to negotiate exit from the EU</td>
<td>All change →
Direct regulations fall away after 2 years (eg financial services)
Comprehensive review of UK law will be required. Parliament to agree new legal and regulatory framework</td>
<td>Continued transition period
2 years unlikely to be enough to agree new UK legislation – especially with no political consensus and slim parliamentary majority</td>
</tr>
<tr>
<td>Market access</td>
<td>No change
As with legal and regulatory, market access remains the same during the negotiation period</td>
<td>Continued access
Access to the Single Market and 3rd country EU trade agreements continue during renegotiation. (This access is terminated on leaving the EU)
Finalising a trade relationship with the EU is separate from Article 50 exit negotiations
New deals with the EU and 3rd countries will need to be agreed</td>
<td>New relationships?
On-going trade negotiations. Government hampered by lack of skilled trade negotiators?
Focus / deals likely to be on goods – services may be slower; movement of people may be more limited</td>
</tr>
</table>

Assessing the impact and developing plans

The impact of this will be different for every organisation. In looking at the threats and opportunities these create for your business, and planning how you can create and protect value, you may wish to consider issues such as:

People & talent

- If you have employees of EU or non-EU origin, consider what to communicate to them and what reassurance you can give.
- Review employment contracts and take steps to protect your non-UK talent.
- Plan for longer term impact on talent recruitment, development and pensions.

Strategic Ambitions

- Consider what to communicate to stakeholders.
- Review M&A transactions and assess longer term opportunities for organic growth, JVs and acquisitions.
- Identify transitional and longer term markets and commercial opportunities.

Finance Growth

- Consider what to communicate to investors.
- Identify opportunities and risks around refinancing and sources of capital.
- Assess future funding requirements and opportunities.

Master Risk

- Which customers or suppliers might be affected by short term volatility?
- Assess impact on business risks including issues such as working capital management and financial reporting.
- Assess longer term plans for tax structure, pension structures and strategies for mitigating fraud, bribery and corruption.

Optimise Operations

- Assess the impact on processes and control and identify exposure to interest rate and exchange rate fluctuation.
- Review operational effectiveness and efficiency including back office and manufacturing/cost base.
- Identify opportunities for developing supply chain value.

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BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE

Report of: Strategic Director of Finance & Legal

Date of Meeting: 26 July 2016

Subject: CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Wards Affected: All

1. Purpose of Report

1.1. This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

1.2. The Council will need to consider the options available (detailed in appendix 1) and put in place new arrangements in time to make a first appointment by 31 December 2017.

2. Recommendation

2.1. To support the Local Government Association (LGA) in setting up a national Sector Led Body by indicating an intention to "opt-in"

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3. Compliance Issues

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies:

The consideration of options for the appointment of auditors is consistent with the policy framework and budget and the achievement of Best Value.

3.2 Relevant Ward and other Members /Officers etc. consulted on this matter:

The Chairman of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

3.3.1 The work of the external auditors is governed by the Code of Practice issued by the Audit Commission in accordance with the Audit Commission Act 1998 and the Local Government Act 1999.

3.3.2 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

3.3.3 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

3.3.4 Section 17 gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

3.4 Will decision(s) be carried out within existing finances and resources?

3.4.1 Yes. The Council holds a budget for audit fees with headroom for penalties and objections on top of the recently reduced Grant Thornton fees. External fees levels are likely to increase when the current contracts end in 2018.

3.4.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 will need to be estimated should the sector led approach not be supported and included in the Council’s budget for 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

3.4.3 Opting-in to a national Sector Led Body (SLB) provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

3.5 <u>Main Risk Management and Equality Impact Assessment Issues (if any):</u>
There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner. Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

4. **Relevant background/chronology of key events:**

4.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

4.2. There are 3 main options available to the Council: a stand-alone appointment, a joint procurement or opting in to a sector led body appointment. The advantages and disadvantages of each option are set out in Appendix 1.

4.3. The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years we have benefited from a reduction in fees in the order of 50% compared with historic levels. The savings we have made by improving our working papers, timescales and responsiveness has been added to by savings achieved by the new nationally negotiated contracts with the firms of accountants and savings from the closure of the Audit Commission.

4.4. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of its auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. The Council's current external audit fees are £314,168 per annum.

4.5. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work as they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

……………………………………..
Jon Warlow – Strategic Director – Finance & Legal

Appendix 1

Options for Appointing Auditors

1. Options for local appointment of External Auditors

1.1. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 To make a stand-alone appointment

1.2. In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

1.3. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

1.4. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances

1.5. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

1.6. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

1.7. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

1.8. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

1.9. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

1.10. The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

1.11. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

1.12. Early indications from a range of neighbouring authorities indicate a preference for opting in to the SLB arrangements.

Option 3 Opt-in to a sector led body

1.13. In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to ‘opt-in’ to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

1.14. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

1.15. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

1.16. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

1.17. The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

1.18. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

1.19. In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

Appendix 2

FAQs issued by the Local Government Association

Sector led body FAQs

1. What is your timetable for setting up the body?

We have already set up the company we would like to see as the sector led body. We set up Public Sector Audit Appointments Limited (PSAA) to make audit appointments under the transitional arrangements following closure of the Audit Commission. To act as a sector led body PSAA will need to be specified as an Appointing Person by the Secretary of State under the Local Audit (Appointing Person) Regulations 2015 and PSAA is working towards achieving such a specification at present.

2. When will we need to make a commitment?

The date by which principal local government bodies will need to formally opt-in to a sector led appointing person arrangement is not yet finalised. The aim is to award contracts to firms by June 2017, giving 6 months to organise which firm is appointed to each individual authority before the 31 December 2017 deadline. In order to maximise the potential economies of scale from agreeing large block contracts with the firms and to manage auditor independence issues we need certainty about the volume and location of work we are able to offer as soon as is practical. Our provisional timetable suggests that we will need to start preparing tender documentation in September 2016 so ideally we will need to know by then which authorities are included.

3. Can we join after it has been set up or do we have to join at the beginning?

One of the main benefits of a sector led approach is the ability to negotiate lower fees with the firms as a result of being able to offer higher volumes of work. The greater number of participants we have signed up at the outset the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector led arrangements in later years. However, in order to be in the best position to negotiate good rates for authorities we would encourage as many authorities as possible to commit by September 2016.

4. Will membership be free for existing members of the LGA?

There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. We believe that audit fees achieved through block contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by using the SLB councils will avoid having to do their own procurement and the legal requirement to set up a panel of independent members.

5. If No to (4) then any idea how much membership of this might be?

N/A

6. How will we be able to influence how the SLB and associated contracts are set up?

Local Government Association members will be able to feed in consideration of the setting up of the sector led body through the usual channels including contact with their Principal Advisors. The Improvement and Development Agency Board considered a report on the outline proposals in December 2015. In addition, we are happy to attend meetings and engage with individuals or groups of authorities on request to discuss the developing arrangements. We have not yet determined the full governance of the sector led arrangements and are considering the options, including how best to obtain stakeholder input.

7. Will there be standard terms and conditions?

The audit contracts between the SLB and the audit firms will require firms to deliver audits compliant with the NAO Code of Audit Practice.

8. What will be the length of the contract?

The optimal length of contract between the SLB and an audit firm has not been decided. We would welcome views on what the sector considers the optimal length of audit contract.

9. Will there be the opportunity of a 3 year contract with an option to extend for up to 2 years or something similar?

Please see answer to question 8.

10. In addition to the Code of Audit Practice requirements set out by the NAO will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?

Local Authority Group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice and will continue to be part of the statutory audit.
Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the current PSAA managed appointment arrangements. We will consider the role of the SLB in making such appointments as part of our planning and would welcome views on this.

11. How is it envisaged that the procurement will work?

12. Will Local authorities be able to seek information from providers and undertake some form of evaluation to choose a supplier?

13. Will the price be fixed with the LGA or will there be a range of prices?

14. If a range of prices will individual Council's be able to undertake a process seeking information and bids from providers and then evaluate their submissions based on response and price i.e. like call off contracts?

We have not yet finalised our detailed procurement proposals and there are a number of options being considered. We will share with you our proposals as soon as possible. The questions raised above are useful in helping us identify the issues that need to be addressed in the proposals