# BIRMINGHAM CITY COUNCIL

## AUDIT COMMITTEE

**TUESDAY, 29 SEPTEMBER 2020 AT 13:00 HOURS**
**IN ON-LINE MEETING, MICROSOFT TEAMS**

## A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

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

2 **DECLARATIONS OF INTERESTS**

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

3 **APOLOGIES**

To receive any apologies.

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

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

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

- Item 5 – Private – Minutes Audit Committee 28 July 2020 - Exempt paragraph 1,2,3 & 7

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

**5 - 22** 5 **MINUTES - AUDIT COMMITTEE 28 JULY 2020**

To confirm and sign the public minutes of the last meeting of the Committee held 28 July 2020.

6 **ASSURANCE SESSION - LEADER'S PORTFOLIO**

(55 minutes allocated) (1305 - 1400)

The Leader & Chief Executive

**23 - 254** 7 **STATEMENT OF ACCOUNTS 2019/20**

(20 minutes allocated) (1400 - 1420)

Report of the Interim Chief Finance Officer

**255 - 272** 8 **BIRMINGHAM AUDIT ANNUAL FRAUD REPORT 2019/20**

(20 minutes allocated) (1420 - 1440)

Report of the Assistant Director Audit and Risk Management

**273 - 300** 9 **AUDIT PROGRESS REPORT AND SECTOR UPDATE**

(10 minutes allocated) (1440 - 1450)

Report of the External Auditor

**301 - 302** 10 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting

11 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 20 October 2020 at 1400 hours via MS Teams (on-line).

12 **OTHER URGENT BUSINESS**

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

## 13 AUTHORITY TO CHAIRMAN AND OFFICERS

Chairman to move:-

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

## 14 EXCLUSION OF THE PUBLIC

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

Exempt Paragraph 1,2,3 & 7.

# BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE**
**28 JULY 2020**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 28 JULY 2020 AT 1400 HOURS - ONLINE MEETING**

**PRESENT:-**

Councillor Grindrod in the Chair;

Councillors Tilsley, Jenkins, Bridle and Akhtar

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**NOTICE OF RECORDING/WEBCAST**

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

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

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**DECLARATIONS OF INTEREST**

217 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.

No interests were declared.

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**APOLOGIES**

218 Apologies were submitted on behalf of Councillor Quinnen for her inability to attend the meeting.

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

219 **RESOLVED**:-

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

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The Chair made the committee aware that if they decide to move into a private session, the web stream would be paused and a note indicating the committee was in a private session would be displayed. The Committee would then move back into a public session and continue with the web streaming live.

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**MINUTES – AUDIT COMMITTEE – 30 JUNE 2020**

220 **RESOLVED:-**

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

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**AUDIT COMMITTEE – FUTURE WAYS OF WORKING**

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

(See document No. 1) – (Page 19 of the document pack)

Sarah Dunlavey, Assistant Director for Audit and Risk Management informed members the report was built upon conversations the committee were having around reviewing the format, frequency etc.

The self-assessment, aspirations for attendance by Cabinet Members and Chief Officers was outlined. In addition, the conversations around governance risks and controls could be assisted by various forms of assurances the committee had access to.

The 3 lines of defence model was summarised; Management assurance, other sources and internal/ external audit reports. Appendix A and B gave background information which consisted of constitution information, terms of reference and the corporate governance framework.

A few members of the committee contributed to the effectiveness review report compiled by Price Waterhouse Coopers (PWC).

The feedback and recommendations from PWC were shared. These were noted as:

- The Annual report from the committee - A decision to be made as to what time of the year this would be produced. Linking this to the accounts timetable and the auditor's findings report. A suggestion was made to consider this opposite end of the financial years.
- The appointment of an Independent Advisor - There were questions as to what the committee would want the advisor to do i.e. how they would add value? would they be a member of the committee or would they be outside of membership?
- Communication programme – Raising awareness of audit committee and its role.
- Rotation of Cabinet Member and officers attending audit committee. Members were reminded that in the chat of this online committee invite; some helpful documentation was attached which could drive the agenda items the committee would want to consider. The latest risk register, organisation chart and the audit reports issued first 3 months of the year, Annual Governance Statement (AGS) issues, reports from Grant Thornton, external inspections could be considered. The additional information circulated in the chat were additional sources that could drive what the committee would want to prioritise. It was noted most of the information shared was not sorted by Cabinet Member and Chief Officer however officers could assist shaping this. This would enable for a view/ assurance map at the point of attendance by Cabinet Members and Chief Officers.
- There had been previous conversations of increasing the number of audit committee to 9 per year to be able to fit in the rotation of Cabinet Members and Chief Officers to attend alongside the core business of the committee. Sarah suggested having an additional committee in October as in September, the accounts tend to dominate the agenda. It was highlighted that the September and November committees most likely would have huge agendas already set.
- Specific skills and qualities required for the Members of the Audit Committee. Consideration was required as to how gaps could be filled through training, the possible appointment of new members and/or external support. This would sit alongside the Independent Advisor route.
- Review the quantity and quality of reports received from officers to determine if these were adequate for the committee to carry out its role successfully and challenge Officers to deliver succinct reports and presentation. Officers had already taken into consideration the reports were very large, therefore some of the documentation had been shared via the files section of the meeting invite as supporting information.

The following comments and queries raised by Members' were noted:

- Councillor Tilsley referred to Appendix C - PWC report. He agreed Audit Committee should present an annual report to full Council as it would be an opportunity to raise the status of the committee. He questioned why Standards Committee should report to Council and not Audit Committee. The PWC report would reinforce the importance of the work of the committee.
- There were concerns around the Constitution which was raised with PWC. Questions around the independence of the committee and should the Members sit on Scrutiny Committees too? An example of a recruitment process was shared i.e. skills and knowledge used to ensure the candidate matched the criteria for a role. However, candidates standing for Council were members of the public willing to carry out responsibilities and functions to populate Scrutiny and Committee spaces. Therefore, Members having the skills to undertake complex area of the Council's activity (e.g. Resources, Audit Committee) was essential. Members felt specialist areas require a specific skillset. The political groups nominate who they wish to populate the Committees. It was noted, Members being able to sit on both Scrutiny and Audit Committee should be changed.
- Cross party Chair (pg. 38) – The Committee Members were not in favour of this suggestion as it was felt the Chair should come from the ruling party e.g. Labour Chair. However, it was essential for the Chair to remain consistent. It was raised that the Audit Committee was on its $7^{th}$ Chair in 5 years and in order to understand the complexity of the Committees work the Chair would need to be in place for a while.
- Councillor Jenkins added extra allowance should be given to the Chairman of Audit and was one of the most demanding appointment to make by the Leader. It was felt the allowance should be the same if not more than Scrutiny Chairman.
- The document referred to Liberal Party which was incorrect. Reference to this to be changed to Liberal Democrat Party. PWC to reflect this across their documents.
- Councillor Bridle queried around training and if that was still scheduled to take place? Officers responded later to the Committee.
- Independent Advisor – A question was raised around value for money of advisors and do other Audit Committees have them. A suggestion was made that the Independent Advisor should be someone who was called upon by the Committee if required and not having a vote at the meeting (In attendance only). This could be a retired, very experienced auditor or someone who hasn't got many career considerations and was more ready to say their opinion.
- Queries were raised if PWC had looked at best practice across Local Authorities Audit Committees. Councillor Bridle requested if PWC could share some information of where Audit Committee had made impact and useful for the Council.

- One of Audit Committees responsibilities was to ensure value for money was delivered. Staff need to be followed the right processes and to see value for money for citizens was being achieved.
- Looking across Directorates of the Council, the processes and procedures differ. The complaints process was an example shared. A damming report was produced, and it highlighted the way complaints were dealt with across the Council. The processes differed across the Directorates and all the Directorates had a different way of dealing with them. There had to be a robust system in place to deal with the complaints across the Council in order to achieve a better result for the citizens. It was queried how cross Directorate issues would be addressed and systemic failure should be identified.
- Councillor Jenkins questioned why PWC was selected to write the effectiveness of the committee report rather than the External Auditors (Grant Thornton) and the cost associated to this.
- Members felt the Audit Committee should report to full Council to report on the findings and work of the year (especially for value for money).
- Reports to the Committee should be concise and possibly include all the relevant documents even though the documents packs would be large. However, when presented to the Committee the documents should be readily understandable by a reasonably competent and able person. Issues that the Committee need to be made aware of should be raised through officers and not embedded within documents. Officers need to draw matters to the Committees attention.
- Increasing the number of meetings from 7 to 9 – Councillor Jenkins was not in favour of this as many of the Members were part time representatives with demanding full-time jobs.

The Chair gave his view on some of the comments made by Members. He reminded the Committee this was his second year of being the Chair of the Audit Committee and he was determined to serve this committee until the end of the Council term 2022.

The Chair supported comments made around the Independent Chair and that this should be someone who acts as an advisor to Members as required.
A report from the Audit Committee to full Council would be good practice as the committee would be moving to a new way of working by gaining engagement from Cabinet Members and Chief Officers. This would allow the full Council to be well informed of the work of the Committee.

In reference to the increase of number of meetings, it was felt in comparison to other Committees, these were less frequent. Considering the amount of work that was covered by the Committee more meetings were required. Therefore, the Chair supported the move to 9 meetings per municipal year. Cabinet Members' and Chief Officers would be invited on a rotation basis to share how they were managing risk, audit and value for money requirements set by the External Auditor.

In terms of the link between Scrutiny Committee and Audit Committee members, this would possibly need to be discussed outside of the Committee look at the Constitution. The Chair supported comments made by Members around training and development in order to obtain skills and experience to understand the information placed in front of Members. Initial training had been given; however, it was hoped this would be revisited coupled with service the Independent Advisor would provide. A rigorous training and development aspect would be required given the seriousness of responsibilities.

Jon Roberts, Grant Thornton added the External Auditors dealt with a number Audit Committees in the public sector therefore could give a view as to what worked and what to avoid. Jon observed discussions around the report and found them very constructive. He was very impressed with the commitment given by the committee and supported comments around Independent Advisors role which do work effectively. However, it was important to get the correct person who understands the local agenda. The other main observations he shared was around the effectiveness and the role of Audit Committee. He highlighted Audit Committee was not Executive or Scrutiny but had a role with particular focus and expertise around governance. Therefore, the agenda should be anchored back to the Council's governance agenda set out in the Annual Governance Statement with the support of various plans. It was noted the issues can be cross-cutting across services, themes and it was important for the Committee to drive that agenda. Jon concluded by commenting the Committee needs its own energy and drive for its agenda to lead to best practise.

The Chair thanked Jon for his comments and added he would like to see the contributions of the Audit Committee noted in the External Auditors Annual report at some point.

Sarah Dunlavey gave final comments on the item.

- The recommendation around Scrutiny and Audit Committee dual membership was deliberately not included in the report as it was not for this Committee to review. There would be an opportunity to review this in November when the Constitution would be updated.
- Training – This was being offered again as an online course over 2 half days (as the training was cancelled last October). Members were able to take up the opportunity as this was now available.
- Independent Advisors – Information currently being compiled, and this would be shared with Members. Having an Independent Advisor for a Audit Committee was common.
- PWC were selected for the effectiveness report as they were doing another piece of work for the Internal Audit team which would be shared with the Members at a later meeting. Sarah was not sure what the split was in terms of the Internal Audit work versus Audit Committee work

however, she may have a quote and would contact Councillor Jenkins directly.

- Value for money and cross cutting areas would be explained via mapping and assurance documents.

Councillor Jenkins questioned if we knew how much the report from PWC cost. The Chair responded the report was part of a wider report for Internal Audit in which Audit Committee work was covered. Sarah confirmed this and stated the report produced by PWC for Audit Committee was a smaller part of the piece of work they have undertaken.
Councillor Jenkins added it was important be clear of how much cost was assigned to all areas of work.

Upon consideration, it was:

221 **RESOLVED:-**

That the Committee;

i) Approved to produce an annual report to Full Council as appropriate on assurance activities undertaken with the assistance of Birmingham Audit. **(Note: the recommendation was slightly changed by the Chair by removing "Council Business Management Committee").**
ii) Approved to develop proposals for an independent advisor(s) to supplement existing skills and abilities.
iii) Approved to undertake a communications programme on the role of the Audit Committee with the assistance of Birmingham Audit.
iv) Approved to seek assurance from managers and Cabinet Members on the management of risks, effectiveness of governance arrangements, and compliance with internal controls.
v) Approved to revisit the Committee's Forward Plan and introduce greater capacity by increasing the number of meetings from 7 to 9 per year. **(Note: 2 votes in favour, 1 vote in opposing, with other Councillors abstaining. Therefore, the recommendation was agreed).**
vi) Approved to co-ordinate activity by mapping sources of assurance, based on the 3 lines of defence model, with the assistance of Birmingham Audit.
vii) Approved to develop and participate in a training programme to further enhance skills and knowledge.
viii) Approved to review the format of officer reports with the assistance of Birmingham Audit.

**RISK MANAGEMENT**

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

(See document No. 2) – (Page 47 of the document pack)

Sarah Dunlavey, Assistant Director for Audit and Risk Management informed the Committee, late last year (2019), the Strategic Risk Register was developed to replace the Corporate Risk Register which was half strategic and half operational. Strategic priorities and risks now listed that would prevent the Council's strategic objectives being met. This was based on PESTLE analysis undertaken by Corporate Leadership Team (CLT).
On page 48, the table summarised the different types of risks and levels.

There were 3 risks which were identified as having a high residual impact. These were;

- Risk of significant disruption to Council services and failure to effectively manage and respond to emergency incidents, Including acts of terrorism.
- Risk of Cyber Attacks.
- Inadequate Property Portfolio (including Health & Safety and Working condition.

A network of directorate risk representative was in place. These representatives facilitate the review of strategic risks and supported each directorate in developing and maintaining appropriate directorate risk registers. Directorate risk registers contained operational risks, managed at a local level. If they are not dealt with correctly, they were escalated to CLT.

Sarah gave a summary of areas covered within the report and then referred to internal target risk which included February 2020 details. In addition, this included the consequences of children returning to educational settings which was a new risk escalated for this Committee.

The Members were informed the updates were not as recent and as would be expected as the operational risks have had to come to the forefront. Some of the operational risks have new detail around Covid-19 whereas some have re-expressed their existing risks in the context of Covid.  The Operational risks have had the hardest impact due to the current situation.

The following comments and queries raised by Members' and responses were noted:

- Councillor Morrall referred to Climate Change and Air Pollution and Clean Air Zone and felt this posed as a risk to the Council's revenues moving forward. Discussions took place at Economy and Skills Overview and Scrutiny last November where the Cabinet Member was asked to undertake an Economic Impact Assessment with businesses in Birmingham. Only a small amount of

businesses had been contacted therefore from an Audit perspective he queried if any further work had been undertaken assessing the Clean Air Zone.
In response, Members were informed the Economic Impact Assessment had not been undertaken however, the Clean Air Zone teams were undertaking IT preparations.

- Councillor Tilsley was concerned about several areas; i) cyberattacks and should be given more priority as there were many international cyberattacks taking place due to the current crisis. ii) Page 54 – Education & Skills – Management of safe return of children to educational settings, there were 125 looked after children over and above the budgeted amount. Some children had very complex needs which was a financial risk as well. There were several out of city placements which was an issue that had to be highlighted. iii) Commonwealth Games – Government had placed a cap on the amount of money they will provide to the City. Eventually, the village would be sold to private owners. The current crisis would be additional risks on this area and was very concerning to off plan sales.
In response, Members were informed Peter Bishop was overseeing the cyberattacks issues. Commonwealth Games had its own extensive risk register which was looked at across the organisation. The children returning to educational settings opens several issues however the Directorate would be working on this.

The Chair supported comments made by Members and felt there was a need to feel confident these were being managed. It was noted this would be factored into the new ways of working and the appropriate Cabinet Members and Chief Officers would appear before the Committee to cover these issues and provide a response on these areas.

The Chair added where possible the risk owners, should link into the portfolio holders from Cabinet perspective. The risk owners should be Chief Officers as at present Assistant Directors were listed.

Upon consideration, it was:

222 **RESOLVED: -**

That the Committee;

i) Noted the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT).
ii) Agreed to review the strategic and top operational risks and assess whether further explanation / information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied.

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**AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT**

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

(See document No. 3) – (Page 55 of the document pack)

Rebecca Hellard, Interim Chief Finance Officer informed the Members the report indicated recommendations from the external auditors showing progress of their audit to date. The report provided further progress update on the implementation of management actions.

Martins Stevens, Head of City Finance Accounts added this was the fifth update report on the progress made into implementing the actions to meet the external auditors' recommendations from last years audit. Individual items had been continually checked upon to minimise any issues for this year's financial statements. As part of the production for this year's financial statement, the activity of the financial ledger had been looked at thoroughly to ensure they were accurate. Property Services had undertaken external reviews to ensure they were reasonable and accurate as can be.
The report to the next Committee would be a part of the Financial Statement report where the draft statements would be presented.

Councillor Tilsley referred to page 62, the issue around Directorates not complying with purchase orders and retrospective purchase orders being raised. He was surprised this was still taking place and having services supplied without purchase orders which should not be happening. There should be no repeat offenders and must be tackled at once by instituting disciplinary produces as it goes against all the financial instruments and rules of the Council.
Officers agreed this shouldn't be happening and a list was fed back to Directorates. They were instructed what to do and as part of the new Oracle ERP system there would be a training given in order to ensure processes were being followed.

The Chair added he would like this issue discussed at a future committee agenda.

223 **RESOLVED: -**

That the Committee;

i) Noted the progress in implementing management actions, attached as Appendix 1, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in September 2019
ii) Agreed for updated reports to be provided to future meetings of this committee on the continued progress in implementing the management actions proposed.
iii) A report to be provided to the Committee on retrospective purchase orders and Directorates not complying with procedures.

**EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

The following report of the External Auditor was submitted:

(See document No. 4) – (Page 69 of the document pack)

Jon Roberts, Grant Thornton informed Members since the last Committee (June), there wasn't enough time elapsed therefore, there wasn't enough progress to report upon. At the previous Committee, Members were informed the plan was revised and the reporting completion date would be November 2020. It was noted that due to the lockdown, it was taking longer to make progress. The extended timetable would be required for officers and auditors to complete the work however, the revised plan was on track and summarised on page 75.

Members attention was drawn to pages 77 and 78, to the in-depth insight into the impact of Covid-19 on financial reporting section, where technical areas of financial statement were listed. There had been continuous engagement with officers on these areas. The technical issues would have a significate bearing on this year's accounts alongside the disclosure the Council would be making around the impact of Covid-19. The Council were encouraged to be open and transparent on its disclosures. The affected areas were highlighted in this section of the report which was backed with overarching in-depth insight report by Grant Thornton (link to the report indicated in the documents were on page 78). This report was used for a training workshop through MS Teams with Local Authority delegates and the BCC officers were in attendance.

Councillor Morrall referred to the Value for Money section and read, "The scope of our work is set out in the guidance issued by the National Audit Office. 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". At the last Council he raised issues around the procurement department and wanted clarity as to what the role of the External Auditors was into looking into the procurement department for the City Council. He gave an example of a Community Centre in his ward where a customer was charged more for a service than what a private company would charge. Questions were raised as to how many BCC resources have been shut down due to chronic failings of the procurement department.

In response Jon shared the value for money was a high-level assessment to comment on the Council's overall arrangements for securing economy, efficiencies and effectiveness therefore procurement would fall within the Council's overall arrangements. For this to be triggered as a specific risk it would have to be a significant risk and impact to the Council e.g. an example of this would be the financial sustainably of the Commonwealth Games.

There was currently one area related to procurement highlighted as a risk; examine how the Council delivers its significant contracts and this could fall within this area however, the auditor would need to be satisfied this was a widespread issue within the Council. It would be Internal Audit who look at this in the first instance and if it was not progressing this would be escalated to the External Auditor.

Rebecca Hellard added this was more to do with local government terminology. The Corporate Procurement Unit deal with the process and routes to market. The Commissioners and front-line managers set which goods and services are to be commissioned. Procurement would offer support to relevant routes to market. The terminologies need to be clearly understood, as commissioning would look across the organisation to help with value for money and ensure the correct routes to market were applied.

The Chair concluded the new ways of working would provide an opportunity for more discussion on procurement and risks associated around value for money.

224 **RESOLVED: -**

That the Committee noted the updates from the External Auditors.

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**PROCESS FOR THE EXIT OF SENIOR OFFICERS**

The following report of the Interim City Solicitor & Monitoring Officer and the Director of Human Resources was submitted:

(See document No. 5) – (Page 85 of the document pack)

The following statement was made by the Chair:
"I would like to remind Members that the report now on the agenda for consideration is about the various processes and procedures that were followed in circumstances when senior officers leave the organisation.

As a Committee, our role is to seek assurances from both the Officers and the Deputy Leader as a representative of the Chief Officers and Deputy Chief Officers appointments, dismissals and service conditions sub-committee – internally referred to as 'the JNC Panel' - as to how these processes are applied and what the JNC Panel's role is in the process especially when there are any disciplinary proceedings.

For the information of members of the public, the JNC Panel is the Council's Sub- Committee which is responsible for the appointment and dismissal of senior officers and is made up of elected members from each of the three political parties.

Any questions posed should relate to the process. They must **not** make reference to any individual officer or a job title or directorate name by which an Officer could be identified.

No personal information or data relating to an individual can be shared because of restrictions imposed by GDPR (General Data Protection Regulations 2016).

If a question goes beyond those relating to the generic processes, the Deputy Leader and Officers will not be able to answer it.

As indicated at the start of the agenda, if there are any questions which are related to any specific cases these must not be referred to in the public session.

There will be an opportunity for more specific questions to be put in private session but again these must not refer to any person by name and no personal information will be able to be provided".

The City Solicitor would give direction of when to go into a private session and subsequent comments would be made'.

The Deputy Leader, Councillor Brigid Jones informed the Committee that Catherine Parkinson, Interim City Solicitor & Monitoring Officer and Dawn Hewins, the Director of Human Resources were also in attendance for this item and she and they would answer any questions members might have.

The process for exit of senior officers for the Local Authority had been shared as part of the document pack. This included details of local BCC arrangements and what had been nationally negotiated through the JNC (Joint Negotiating Committee). It was noted most of the procedures were in line with regulations. In terms of Members oversight of this function, the JNC Panel consisted of 3 Labour Members, 1 Conservative and 1 Liberal Democrat Member in line with proportionality. The JNC Panel oversaw any such matters. The matters that are dealt with remain confidential to that Committee however, it does have cross-party oversight where Members had input to the process.

In addition, it was noted, that all three-party leaders were consulted in relation to any actions taken against senior officers therefore providing an extra layer of Member oversight. Information in relation to any exits which resulted in financial payments would be reported to the Chief Finance Officer and the External Auditor, for information.

The Chair asked whether the Officers wished to add anything further. They both confirmed that there was nothing to add to what the Deputy Leader had already shared.

The following comments and queries raised by Members and responses were noted:

- Councillor Jenkins felt that it should not be assumed the papers had been read and suggested that the imposition of an obligation for Members to read every document presented in the document pack was unrealistic. Officers should decide what was important in order to make the Committee aware and draw items to Members attention.
- Councillor Jenkins also noted the comments of the Chair however felt it completely obviated the purpose of the questions raised in the letter sent to the Chair on 12 June 2020.

At this juncture, the Chair reminded Members he was happy to move into a private session in order to ask more questions whilst maintaining the conditions stated at the start of this item. He suggested the report presented in the public domain but if Councillor Jenkins felt there were general principles and specific concerns that he would like to discuss with the Deputy Leader and officers related to the process and procedures with the JNC Panel and the way staff exit employment, that may be more appropriate in private session.

- Councillor Tilsley referred to page 89 paragraph 3.40 of the document pack and read "The City Solicitor is authorised to settle proceedings up to the value of £500,000. Decisions above that figure would need to be signed off by the Chief Finance Officer and/ or the Chief Executive in consultation with the City Solicitor, within the parameters previously agreed by the JNC Panel."
- He commented that £500,000 was an enormous amount of money as a pay off and assumed this would include contributions to a pension plan however this was at least two and a half times more than what had been paid for a Chief Executive and above the delegation levels that should be given to one particular individual.
- In response, the Interim City Solicitor informed the Committee the £500,000 was the amount indicated in the Constitution and the City Solicitor was able to settle any proceedings up to that value. Anything above that amount would have to be signed off by the Chief Finance Officer. The amount was standard across most Local Authorities.
- The Chair queried how the Audit Committee would be assured and confident of the process when agreements are signed that are not shared with the Committee. He queried if there were any areas the process that could be improved in order to be assured rather than just observing these in the City Finance Accounts.
- In response the Interim City Solicitor indicated that thought was being given to whether in the future, in circumstances where a confidentiality agreement was entered into that the Tribunal be asked to include that Audit committee could also have sight of the agreement in addition to the JNC Panel. This would have to be discussed with external advisers at the time and be subject to agreement of the individual concerned. This could be a possible area to explore as the Audit Committee were responsible for signing off the accounts. The Chair added he would like this area to be explored further.

- Councillor Jenkins agreed with Councillor Tilsley' s comments around the delegation levels and threshold of pay outs. He had noted Government guidance stated there should be no pay offs exceeding £100,000. Also, it should be considered how many years it takes for an average person to work in order to achieve £500,000. He reminded Members that Councillors passed a motion that all documents were accessible before the Audit Committee therefore agreements should not be signed off that preclude the Audit Committee from having sight of what had been agreed.

The Chair referred to the terms of the payoffs set by Government did not include the settlements within the employment tribunals that might exceed the limits. There are certain circumstances where Government limits do not apply.

Both the Interim City Solicitor and Director HR confirmed that Government had recently published a document which had been consulted on twice, where they are intending to set the maximum amount to be paid as an 'exit cap' at £95,000. As yet the implementation date had not been confirmed.

The Interim City Solicitor also advised Members the £500,000 was not just payments to individuals but for the City Solicitor to settle proceedings which could be any court case that the Council was involved in.

The Deputy Leader referred to comments made by Members and reiterated the paragraph referenced in the report was related to settlements BCC would make in a court action. Employment tribunals awards including any discrimination claims were uncapped. It was felt the Council should not be in a position to lose a claim during an employment tribunal due to discrimination. However, if ever they were this position this should be rectified immediately.

She also added in response to Councillor Jenkins that Members need to take responsibility as part of their roles to read documents provided as part of their role to the Committee especially as a serious Committee such as Audit.

At this juncture, 15.31pm, the Chair announced the Committee would be moving into a private session to consider questions from Members that could not be discussed in public.

At 15.52pm, the Committee returned to the public session.

Upon consideration, it was:

226 **RESOLVED**:-

That Audit Committee;

i) Noted the process outlined in the public report.
ii) Agreed that the Chair of the Audit Committee write to the Chair of the JNC Panel recommending a standing item to be placed onto the JNC Panel agenda around regular updates of senior officers' cases. An Annual

report on senior officers claims to be shared with both the JNC Panel and Audit Committee.

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**SCHEDULE OF OUTSTANDING MINUTES**

Information for noting.

Minute number 193 remains on the schedule. All the actions were delivered at discharged at this Committee. New actions following this Committee would be added to the next schedule.

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**DATE AND TIME OF NEXT MEETING**

The next meeting is scheduled to take place on Tuesday, 29 September 2020 at 1400 hours via MS Teams (on-line).

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**OTHER URGENT BUSINESS**

The Chairman made the Committee aware that a meeting of the Education & Children's Social Care Overview & Scrutiny Committee took place in July where the issue related to Audit Committee intervention on the Travel Assist, Home to school transport concerns around the risk management around the programme was raised by that Committee. The report of the Education & Children's Social Care O&S Committee made it into the Birmingham Mail on the online site indicating a couple of statements that were potentially concerning to the Members of this Committee.
In response to this, the Chair requested the Cabinet Member and Director of Children Services to attend the Committee to share a statement in relation to what was presented to the O&S Committee and subsequent media coverage to update Members and question.

The following statement was made by Councillor Kate Booth, Cabinet Member Children's Wellbeing:

"In February at Full Council in response to an oral question, I stated that no drivers with a positive DBS were employed. I have no reason to suspect that this information was incorrect or misleading.  The Committee will be aware we have been on a significant journey of improvement with our SEND services and robust procedures for checking positive DBS disclosure are in place.

At the Overview and Scrutiny committee meeting on 17th July, officers advised that there were 19 outstanding cases awaiting consideration through the HR panel. This related to current cases going through the process which was introduced in January 2020. A great deal of work has been undertaken to review over 800 drivers across 17 providers operating home to school transport in the city. An article was removed by Birmingham Live after it was published due to inaccuracies. The article referred to 'employees' however none of the 19 in question are employed by the council.

Any drivers applying to drive on home to school transport routes in Birmingham must have a DBS check in place. Any DBS checks with positive disclosures are reviewed by BCC's HR panel, working closely with Travel Assist managers, to ensure the council is satisfied as to the suitability of drivers. Drivers with positive disclosures are not able to work on home to school transport routes until they have been approved by the panel. Where the Panel concludes a driver is not suitable, they will be rejected and unable to start driving on home to school transport.

Given the scale of Birmingham's home to school transport operation, applications are received on a regular basis and the strengthened HR panel takes place weekly. I would not be aware of the new cases being considered - new applications for drivers and guides come in on a daily basis.

As regards the history of the 19 cases currently outstanding, officers will be able to answer general questions about the process".

Councillor Morrall referred to Sky News where there was a report on paedophiles using deed polls to change their name so that they do not get detected by DBS checks. He felt this was important to raise as both the Cabinet Member and Director were in attendance to see if the Council was aware of this. He queried what processes were put into place to ensure to protect young and vulnerable people in the City from predators.
The Chair reminded the Committee a fuller update on this area would be provided at the January meeting.

Tim O'Neill, Director of Education & Skills informed Members a fuller description of the processes would be shared. These were robust and the details would be made available. It was noted there were always people who would try to bypass the system and assured Members they would do everything to ensure this was avoided. The system had been set up to avoid any situations and it was a preventive measure to avoid situations such as this.

A brief summary of the process of how it stands and where it would want to be at the end point was shared by Nichola Jones, Assistant Director SEND.

She referred to the DBS process, a dynamic purchasing system was in place in February and prohibits drivers with a positive DBS until their case had been received by BCC DBS Panel. When the new framework was introduced in February it clearly set out the contractors were responsible for ensuring DBS checks. Since February, it was stipulated to contractors that the information on this was to be provided on a monthly basis. From September, the Governments self service portal would be used to check and monitor the applications. This was a small extra cost which would provide immediate notification to any changes to the DBS and that would be the most the Local Authority could put in place.

The Chair requested officers to provide a written response to the Committee on the issue around what the Council had in place to ensure deed poll name changes were circumvented.
Tim added some of the limits in relation to this were not within BCC domain however a response would be shared.

**RESOLVED: -**

227 A written response to be provided by Officers to the Committee related to the avoidance of deed poll changes via DBS checks.

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**AUTHORITY TO CHAIRMAN AND OFFICERS**

**RESOLVED**:-

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

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The meeting ended at 16.05 hours.

……………………………..
CHAIR

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **AUDIT COMMITTEE** |
| **Report of:** | **Interim Chief Finance Officer** |
| **Date of Decision:** | **29 September 2020** |
| **Subject:** | **STATEMENT OF ACCOUNTS 2019/20** |
| **Wards affected: All** | |

**1 Purpose**

1.1 This report presents the Council's draft Statement of Accounts for 2019/20 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 2019/20.

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

**Contact Officer:** Rebecca Hellard
**Telephone No:** 0121 303 2950
**E-mail address:** rebecca.hellard@birmingham.gov.uk

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

## 3 Compliance Issues:

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

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based on International Financial Reporting Standards (IFRS).

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 Statement of Accounts includes the Annual Governance Statement, which has been considered at a previous meeting of this Committee. The Annual Governance Statement draws on the work undertaken during the year in the maintenance of the Council's risk register.

## 4 Relevant background/chronology of key events:

4.1 The 2019/20 accounts were signed on 28 August 2020 in line with the revised statutory deadline.

4.2 Appendix 1 to this report is the published draft Statement of Accounts for 2019/20. The document includes the core statements, supplementary statements and explanatory notes for material items to give a greater depth of detail for readers of the accounts.

4.3 The Council also prepares Group Accounts which form part of the overall Statement of Accounts. The Council has interests in a number of wholly owned subsidiary companies as well as an interest in in other entities in partnership with other organisations.

4.4 The Council's accounts for 2019/20 were opened for public inspection on 1 September 2020 for a period of 30 working days, ending on 12 October 2020. Questions on or objections to the accounts may be raised with the external auditor during the period of public inspection.

4.5 The fieldwork informing the audit of the accounts is expected to be substantially completed by the middle of November 2020. A further report will be presented to this committee at its meeting on 24 November requesting the approval of the audited accounts by members. The external auditors will provide their Audit Findings Report setting out the findings and conclusions arising from their audit.

**Signature:**

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

Dated: ………………………………………………………………………………

Birmingham City Council

# Draft Statement of Accounts 2019/20 Subject to Audit

**Index**

# NARRATIVE REPORT

## KEY FACTS ABOUT BIRMINGHAM

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

However, Birmingham faces a number of key challenges with:

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

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

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

## KEY FACTS ABOUT THE COUNCIL

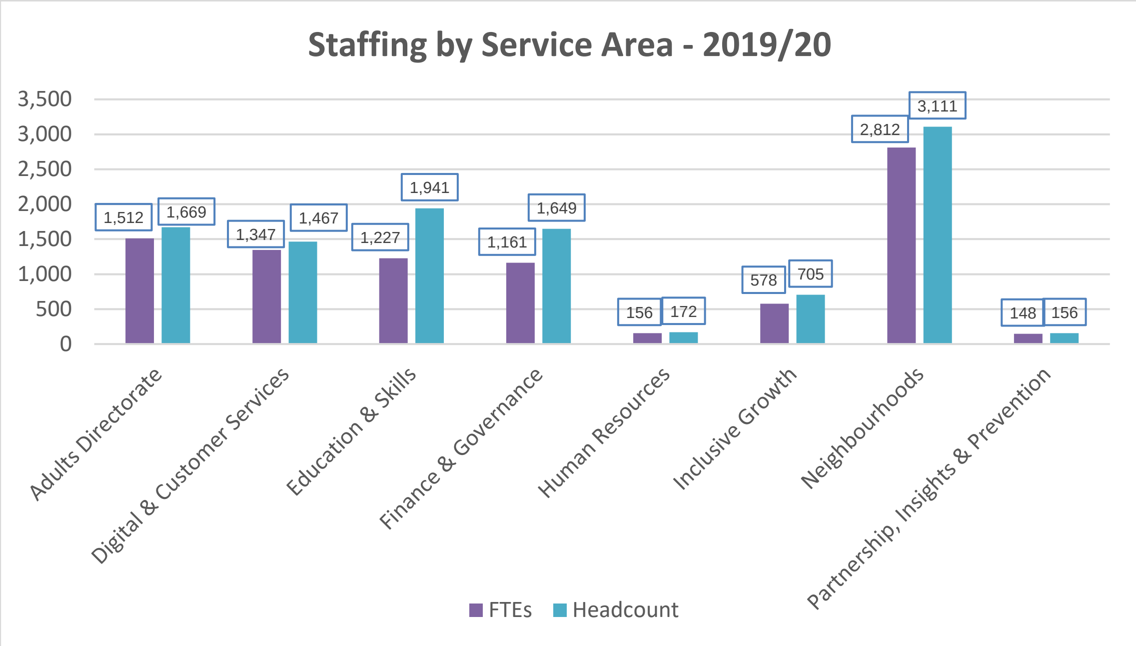
The Council elections held in May 2018 were on the basis of all 101 seats being contested, with Councillors elected for a four year term. The political composition of the Council following the election was:

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

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

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

In supporting the delivery of services, the Council employed, as at 31 March 2020, 25,628 staff (31 March 2019: 27,349) which equated to 19,441 full time equivalents (fte) (31 March 2019: 20,475). If schools' staff are excluded, the Council employed 10,870 staff (31 March 2019: 10,985) which equated to 8,783 fte (31 March 2019: 8,942). The chart below shows the Council's staffing, excluding school staff, by service area for 31 March 2020.




## THE COUNCIL'S AIMS AND PRIORITIES

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

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

### The Challenge of Climate Change

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

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

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

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

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

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

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

- The Birmingham Clean Air Strategy which sets out a series of pledges as to how the Council and others in the city can support the journey towards cleaner air, including creating a Clean Air Zone. The Clean Air Zone was scheduled to come into effect by the end of summer 2020, however, the Council has requested to delay its launch due to the profound impact of Covid-19 on the economy. An exact date will be announced by autumn 2020, but the Clean Air Zone will not go live before 1 January 2021.

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

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

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

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

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

**Commonwealth Games 2022**

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

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

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

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

## *GOVERNANCE ARRANGEMENTS*

### Strategic Programme Board

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

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

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

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

### <u>Covid -19</u>

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

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

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

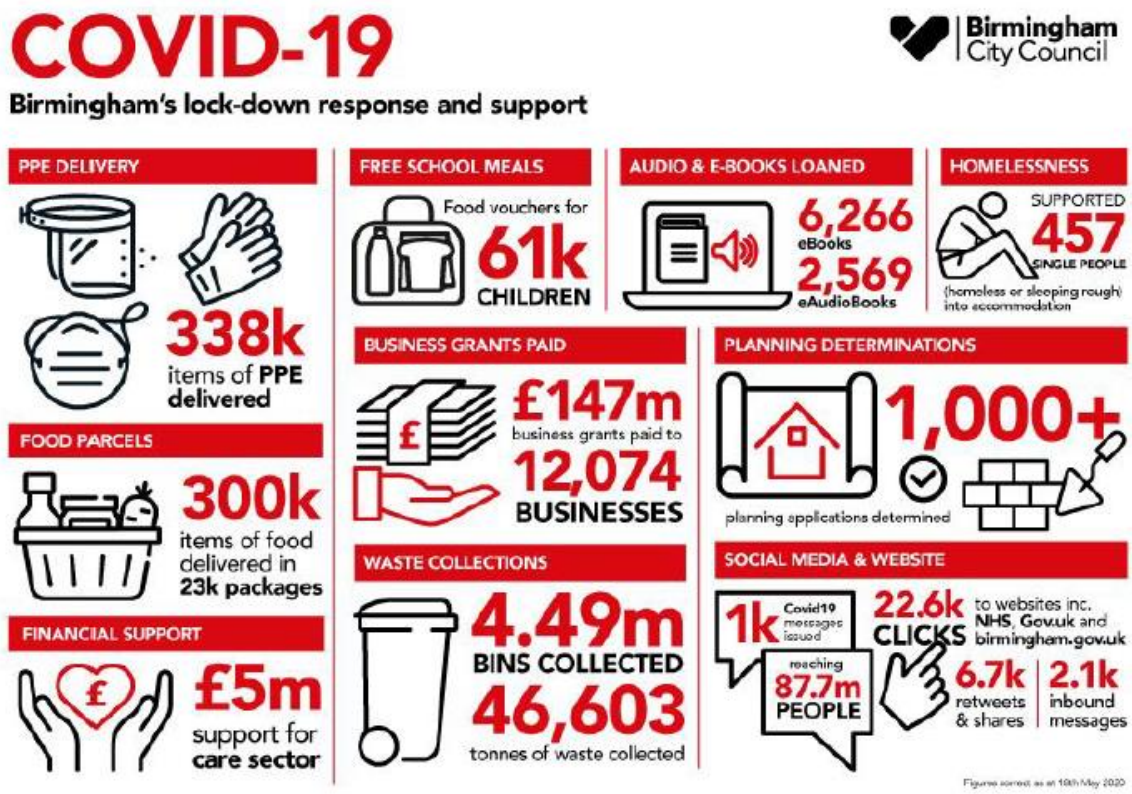
The pandemic has had a significant financial impact on the Council through the changes that have had to be made in service delivery and support offered and through loss of income. The full impact may not be known for some time as the time and the extent to which the local economy manages to recover cannot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

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

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

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

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



## Highways PFI Arrangements

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

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

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

The principal dispute began in 2014 and went through:

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

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

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

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

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

## ICT Services

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

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

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

### Covid-19

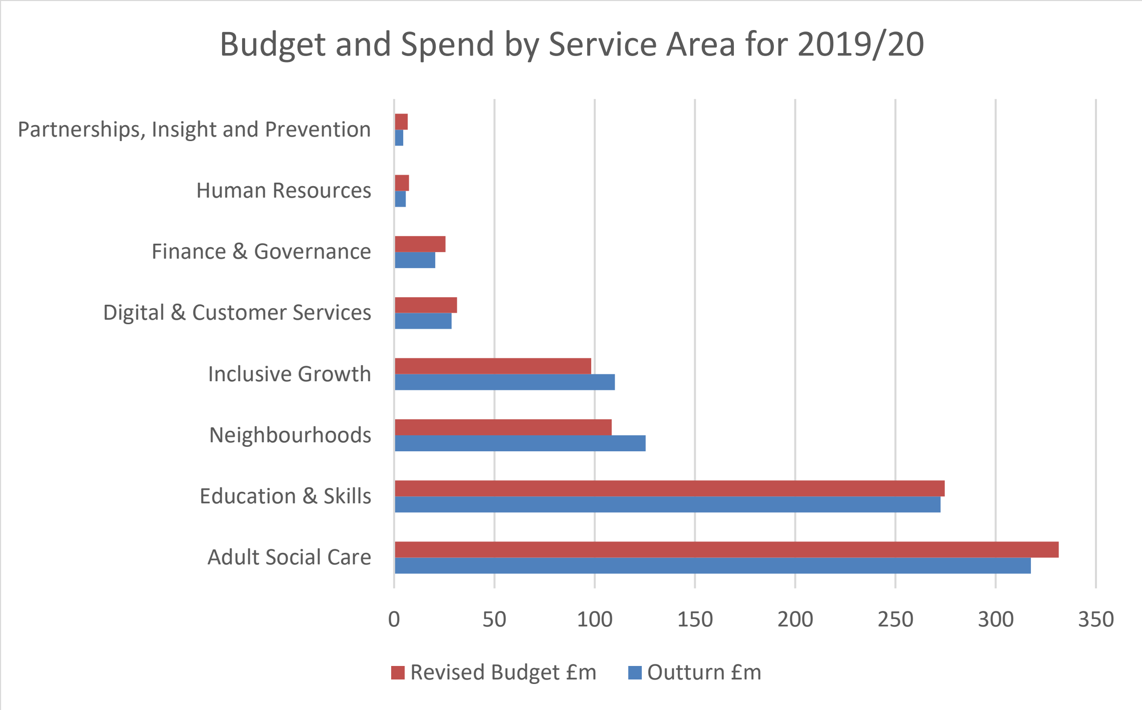
Whilst the Covid-19 pandemic only became a major issue in the latter stages of the financial year, it has had an impact on the financial performance of the Council. Whilst the majority of the impact will be felt in the 2020/21 and following years and which is discussed more fully in the section *Future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

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

### Revenue Expenditure

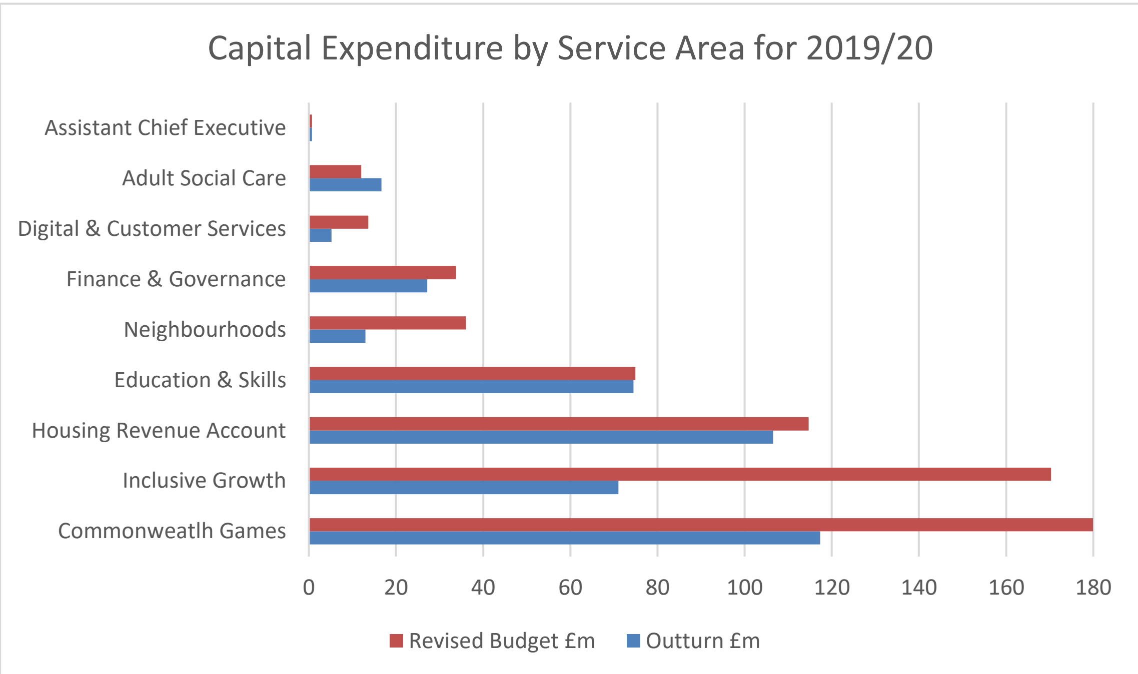
The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 23 June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

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




## Capital Expenditure

Total expenditure on Directorate capital schemes in 2019/20, reported to Cabinet on 23 June 2020, was £432.3m (2018/19: £344.7m), compared to the revised capital budget of £636.2m (2018/19: £524.3m). The reported variance of £203.9m was mainly as a result of delays in expenditure on a number of capital schemes. Details of this slippage are given in the Council's Capital Outturn report for 2019/20. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

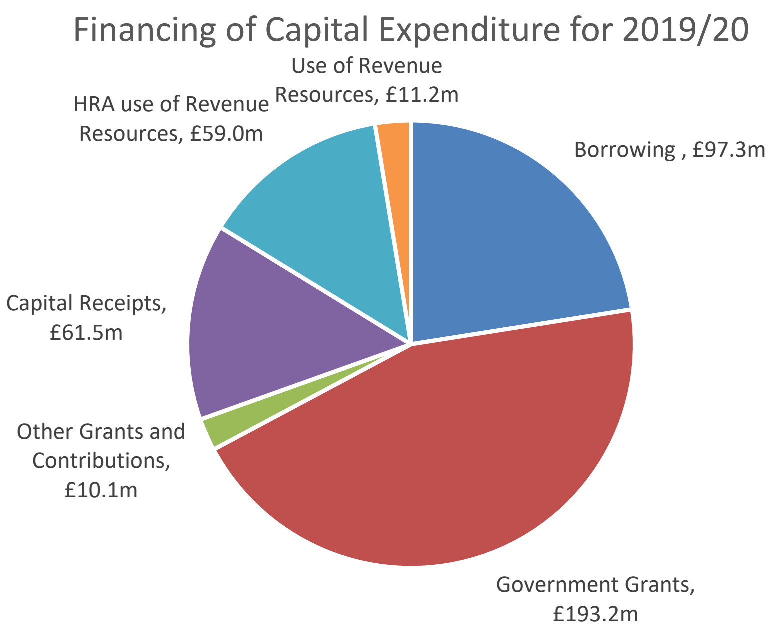


## Material Assets Acquired

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

## Capital Financing

The financing arrangements in respect of capital expenditure in 2019/20, as reported to Cabinet on 23 June 2020, are summarised below:




During the financial year ended 31 March 2020, the Council took £190m of long term loans, £30m of which was used to refinance the early repayment of LOBO loans. The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

Further details of the Council's financial liabilities are given in Notes 40 and 41 to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are given in Notes 24 to 26 to these financial statements.

## Service Concession Arrangements and Similar Contracts

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

Pension Liabilities

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

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

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

- There is a 16 year recovery plan which has been built into the Council's financial plans;

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

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

Provisions

Equal Pay

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

Business Rates

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

The Council, as Billing Authority, is required to make a provision for this liability. These financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2020 but which remained unsettled. From 1 April 2017, the Council has been piloting a 100% Local Business Rates Retention scheme which has meant that its share of any provision outstanding relating to appeals is now 99% with the remaining 1% attributable to the Fire and Rescue Authority.

Guarantees to Third Parties

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

The Council has also provided a guarantee to the Trustees of the National Exhibition Centre Limited Pension Fund and Pension Scheme to meet the current and future funding obligations that may arise in respect of liabilities following the disposal of the NEC Group on 1 May 2015. In 2017/18, the Council set up an arrangement through PETPS (Birmingham) Capital Limited, PETPS (Birmingham) General Partner Limited and PETPS (Birmingham) Pension Funding SLP that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

## Reserves

The Council maintains two types of reserves:

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

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

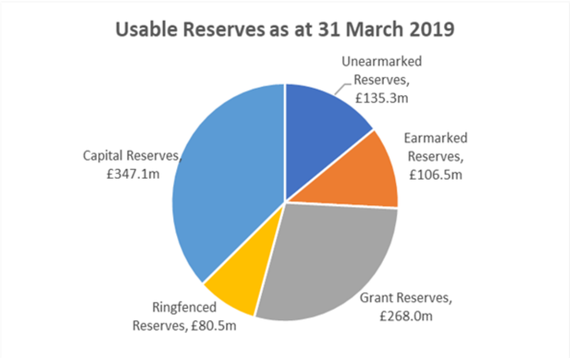
    - Unrealised gains and losses, particularly in relation to changes in valuation of non-current assets;
    - Adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure.

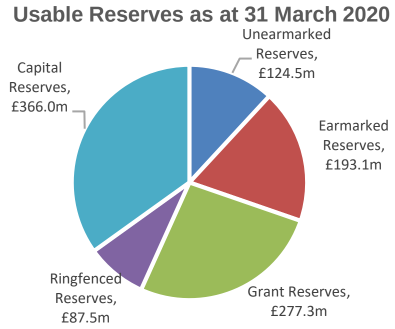
The level of reserves held at the year-end are set out below.

| | 31 March 2019 (Restated) £m | 31 March 2020 £m |
|---|---|---|
| Usable Reserves | 937.4 | 1,048.4 |
| Unusable Reserves | (1,207.9) | (1,038.3) |
| **Total Reserves** | **(270.5)** | **10.1** |

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

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




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

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

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

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

The Council's net assets at 31 March 2020 have shown an improvement of £280.6m to £10.1m from the prior year net liability position being represented by the usable and unusable reserves.

**The Financial Statements**

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

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

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

The Core Financial Statements

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

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

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

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

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

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

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

The Council's net assets at 31 March 2020 show an improvement of £280.6m over the previous year, mainly as a result of:

- an increase of £48.0m in the carrying value of long term assets and assets held for sale following revaluation
- an increase in the level of short term investments of £158.7m
- an increase in the level of short term debtors of £54.3m
- a reduction in borrowing of £62.5m

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

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

Supplementary Statements

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

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

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

Group Accounts

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

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

Associate
Birmingham Airport Holdings Limited

Joint Venture
Paradise Circus General Partner Limited

The Council also operates through or in conjunction with a number of organisations where the level of activity is not considered material to the overall Group Accounts. Details of these organisations are set out in Note 49, Related Parties.

**Accountable Body Roles**

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

## Future Revenue and Capital Expenditure Plans

The Council's Financial Plan 2020 - 2024 was set in the context of current national policies and funding, pressures on services arising from demographic changes and increasing and changing needs, working with partners and the Council's own priorities and objectives. The Council has historically been more dependent on government grants than many local authorities because of the higher levels of need in the city and because of the comparatively low tax base which constrains what can be raised locally through Council Tax.

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

The Council's key capital priorities are addressed through the four-year capital programme, totalling £1,742m in the Financial Plan 2020 - 2024. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £419m of Government grants and other external contributions. The programme also incorporates borrowing proposals set out in the approved Enterprise Zone Investment Plan, the cost of which will be supported from projected Business Rates growth in the Enterprise Zone area.

Whilst the Council's Financial Plan sets out the financial consequences to the Council of its planned activity during the year, the impact of Covid-19 has had a significant impact of the financial position of the Council. In assessing the financial performance for the four month period ending 31 July 2020, the Council has estimated that the impact of Covid-19 will result in additional expenditure or lost income of £138.0m. The Council's net pressure is currently forecast to be £38.1m, utilising offsetting unringfenced government funding of £84.3m and a forecast £15.6m from the government's income loss scheme; where after 5% deductible, the Council will be compensated for 75p in every pound in sales, fees and charges losses due to Covid - 19. The current estimates of the impact are based on a six month forecast for the duration of the incident along with some residual costs.

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

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

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

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

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

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

Longer Term Financial Matters

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

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

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

## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Birmingham City Council this is the Chief Finance Officer who also has the role of Section 151 officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

### The Section 151 Officer's Responsibilities

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

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

The Section 151 Officer has also:

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

### Certification of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council as at 31 March 2020 and of its income and expenditure for the year ended 31 March 2020.

…………………………………………………………………………………….

**Rebecca Hellard, Interim Chief Finance Officer and Section 151 Officer**
**28 August 2020**

# CORE FINANCIAL STATEMENTS 2019/20

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Figures for 2018/19 have been restated to reflect the change in Directorate structure. Details of the restatement are set out in Note 8.

| 2018/19 (Restated) Gross Expenditure | Gross Income | Net Expenditure | | Note | 2019/20 Gross Expenditure | Gross Income | Net Expenditure |
|---|---|---|---|---|---|---|---|
| £m | £m | £m | **Continuing Operations** | | £m | £m | £m |
| 452.2 | (122.5) | 329.7 | Adult Social Care & Health | | 461.3 | (121.4) | 339.9 |
| 1,304.6 | (826.6) | 478.0 | Education & Skills | | 1,166.1 | (808.7) | 357.4 |
| 235.8 | (69.9) | 165.9 | Neighbourhoods | | 207.1 | (74.1) | 133.0 |
| 173.4 | (87.8) | 85.6 | Inclusive Growth | | 121.3 | (89.0) | 32.3 |
| 8.0 | (1.7) | 6.3 | Human Resources | | 8.0 | (2.0) | 6.0 |
| 591.4 | (548.6) | 42.8 | Digital & Customer Services | | 564.5 | (528.9) | 35.6 |
| 97.7 | (93.7) | 4.0 | Partnerships, Insight and Prevention | | 97.6 | (92.0) | 5.6 |
| 19.5 | (11.0) | 8.5 | Finance & Governance | | 11.7 | (14.4) | (2.7) |
| 6.2 | (65.7) | (59.5) | Centrally Managed | | 19.4 | (71.6) | (52.2) |
| (34.9) | - | (34.9) | Superannuation - Extraordinary Items | 10 | 11.8 | | 11.8 |
| 194.2 | (284.8) | (90.6) | Housing Revenue Account | | 195.0 | (278.2) | (83.2) |
| **3,048.1** | **(2,112.3)** | **935.8** | **Total Cost Of Services** | | **2,863.8** | **(2,080.3)** | **783.5** |
| 65.1 | - | 65.1 | Other Operating Expenditure | 11 | 146.2 | - | 146.2 |
| 296.5 | (61.1) | 235.4 | Financing and Investment Income and Expenditure | 12 | 314.1 | (68.3) | 245.8 |
| 2.4 | (1,126.3) | (1,123.9) | Taxation and Non-Specific Grant Income | 13 | 13.9 | (1,272.8) | (1,258.9) |
| | | **112.4** | **(Surplus) / Deficit on Provision of Services** | | | | **(83.4)** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (230.9) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | 24,25,26 | | | (59.6) |
| | | - | Impairment losses on non-current assets charged to the revaluation reserve | 24,25,26 | | | - |
| | | (187.4) | Remeasurement of the net defined benefit liability | 22 | | | (137.6) |
| | | **(418.3)** | | | | | **(197.2)** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | 0.8 | (Surplus) / deficit on revaluation of available for sale financial assets | | | | - |
| | | **0.8** | | | | | **-** |
| | | | **Reclassification Adjustment for prior year unrealised gains/(losses)** | | | | |
| | | (0.8) | Gain/(loss) adjustment on disposal of available for sale financial assets | | | | - |
| | | **(0.8)** | | | | | **-** |
| | | **(418.3)** | **Other Comprehensive (Income) / Expenditure** | | | | **(197.2)** |
| | | **(305.9)** | **Total Comprehensive (Income) / Expenditure** | | | | **(280.6)** |

## Movement in Reserves Statement

This Statement shows the movement in the year in the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves. The opening balances for 2019/20 have been adjusted in line with the Code guidance following the implementation of IFRS 9, Financial Instruments.

| | Total General Fund Balance | Total HRA Reserves | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 31 March 2018** | **509.1** | **4.8** | **320.4** | **28.6** | **107.0** | **969.9** | **(1,517.7)** | **(547.8)** |
| **Movement in Reserves during 2018/19** | | | | | | | | |
| Prior period adjustment | - | | - | - | - | - | (27.6) | (27.6) |
| Adjustment for the Restatement of Financial Instruments | (0.5) | | - | - | - | (0.5) | (0.5) | (1.0) |
| **Restated Balance brought forward at 1 April 2018** | **508.6** | **4.8** | **320.4** | **28.6** | **107.0** | **969.4** | **(1,545.8)** | **(576.4)** |
| Surplus/(Deficit) on the provision of services | (164.1) | 51.7 | - | - | - | (112.4) | - | (112.4) |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | 418.3 | 418.3 |
| **Total Comprehensive Income and Expenditure** | **(164.1)** | **51.7** | **-** | **-** | **-** | **(112.4)** | **418.3** | **305.9** |
| Adjustments between accounting basis and funding basis under regulations (Note 18) | 215.6 | (51.1) | (80.1) | (3.7) | (0.3) | 80.4 | (80.4) | - |
| Increase/(Decrease) in 2018/19 | **51.5** | **0.6** | **(80.1)** | **(3.7)** | **(0.3)** | **(32.0)** | **337.9** | **305.9** |
| **Balance at 31 March 2019** | **560.1** | **5.4** | **240.3** | **24.9** | **106.7** | **937.4** | **(1,207.9)** | **(270.5)** |
| **Movement in Reserves during 2019/20** | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 41.1 | 42.3 | - | - | - | 83.4 | - | 83.4 |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | 197.2 | 197.2 |
| Total Comprehensive Income and Expenditure | **41.1** | **42.3** | **-** | **-** | **-** | **83.4** | **197.2** | **280.6** |
| Adjustments between accounting basis and funding basis under regulations (Note 18) | 46.9 | (37.7) | (17.0) | (0.5) | 35.9 | 27.6 | (27.6) | - |
| Increase/(Decrease) in 2019/20 | **88.0** | **4.6** | **(17.0)** | **(0.5)** | **35.9** | **111.0** | **169.6** | **280.6** |
| **Balance at 31 March 2020** | **648.1** | **10.0** | **223.3** | **24.4** | **142.6** | **1,048.4** | **(1,038.3)** | **10.1** |

## Balance Sheet

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

| 1 April 2018 (Restated) £m | 31 March 2019 (Restated) £m | | Note | 31 March 2020 £m |
|---|---|---|---|---|
| 5,692.3 | 5,801.3 | Property, Plant and Equipment | 24 | 5,860.6 |
| 251.6 | 249.8 | Heritage Assets | 25 | 249.9 |
| 11.3 | 12.7 | Investment Property | | 13.2 |
| 13.7 | 7.4 | Intangible Assets | 26 | 7.1 |
| 41.7 | 41.2 | Long Term Investments | 40 | 37.3 |
| 125.2 | 115.4 | Long Term Debtors | 27 | 114.5 |
| **6,135.8** | **6,227.8** | **Total Long Term Assets** | | **6,282.6** |
| 72.6 | 69.6 | Short Term Investments | 28 | 228.3 |
| 0.9 | 23.4 | Assets Held for Sale | 29 | 16.7 |
| 1.3 | 1.5 | Inventories | | 1.8 |
| 329.4 | 330.6 | Short Term Debtors | 30 | 384.9 |
| 55.5 | 46.2 | Cash and Cash Equivalents | 31 | 62.0 |
| **459.7** | **471.3** | **Total Current Assets** | | **693.7** |
| (35.4) | (15.2) | Cash and Cash Equivalents | 31 | (0.7) |
| (799.8) | (583.1) | Short Term Borrowing | 35 | (404.5) |
| (333.7) | (295.8) | Short Term Creditors | 32 | (380.8) |
| (188.1) | (205.4) | Short Term Provisions | 33 | (175.0) |
| **(1,357.0)** | **(1,099.5)** | **Total Current Liabilities** | | **(961.0)** |
| (1.5) | (2.3) | Long Term Creditors | | (0.7) |
| (23.5) | (15.9) | Long Term Provisions | 33 | (13.8) |
| (2,740.0) | (2,855.5) | Long Term Borrowing | 35 | (2,971.5) |
| (462.0) | (444.4) | Other Long Term Liabilities | 40 | (427.9) |
| (2,587.9) | (2,552.0) | Net liability on defined benefit pension scheme | 22 | (2,591.3) |
| **(5,814.9)** | **(5,870.1)** | **Total Long Term Liabilities** | | **(6,005.2)** |
| **(576.4)** | **(270.5)** | **Net Assets/(Liabilities)** | | **10.1** |
| | | **Usable Reserves** | 19 | |
| 169.9 | 144.0 | Unearmarked Reserves | | 133.0 |
| 130.9 | 106.5 | Earmarked Reserves | | 193.1 |
| 169.7 | 268.0 | Grant Reserves | | 277.3 |
| (11.5) | (8.7) | Unearmarked Non-Schools DSG | | (8.5) |
| 83.0 | 80.5 | Ringfenced Reserves | | 87.5 |
| 427.4 | 347.1 | Capital Reserves | | 366.0 |
| **969.4** | **937.4** | **Total Usable Reserves** | | **1,048.4** |
| (1,545.8) | (1,207.9) | Unusable Reserves | 20 | (1,038.3) |
| **(576.4)** | **(270.5)** | **Total Reserves** | | **10.1** |

## Cash Flow Statement

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

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

**Note 1**
**Accounting Policies**

### i. General Principles

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

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

### ii. Accruals of Income and Expenditure

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

- Revenue from the 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.

### iii. Fair Value Measurement

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

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

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

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

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

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

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

### iv. Exceptional Items

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

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

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

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

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

**vi. Employee Benefits**

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

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

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

  Service cost comprising:
    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
    - past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;
    - net interest on the net defined benefit liability/(asset), that is the net interest expense for the Council – the change during the reporting period in the net

defined benefit liability/(asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/(asset) at the beginning of the period – taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

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

Contributions paid to the West Midlands Local Government Pension Fund:

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

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

Discretionary Benefits

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

### vii. Revenue Expenditure Funded from Capital under Statute

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

### viii. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 18, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

### ix. Government Grants and Contributions

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

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

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

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

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

**x. Overheads and Support Services**

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

**xi. Property, Plant and Equipment**

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

<u>Recognition</u>

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

<u>Measurement</u>

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

Impairment

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

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

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

Useful Life

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

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

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

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

Depreciation

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

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

Componentisation

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2019/20, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

**xii. Heritage Assets**

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

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

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

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

**xiii. Intangible Assets**

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

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

Intangible assets are measured initially at cost and the depreciable amount is amortised over the useful life of the asset on a straight-line basis and charges to the relevant Directorate in the Comprehensive Income and Expenditure Statement.

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

**xiv. Investment Properties**

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

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

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

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

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

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

**xv. Service Concession Arrangements**

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

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

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

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

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

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

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

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

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

**xvi. Leases**

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

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

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

<u>The Council as Lessee</u>

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

**xvii. Interests in Companies and Other Entities**

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

**xviii. Accounting for Schools**

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

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

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

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

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

**xix. Financial Instruments**

Financial Liabilities

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

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

**xx. Cash and Cash Equivalents**

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

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

**xxi. Provisions, Contingent Liabilities and Contingent Assets**

Provisions

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

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

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

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

Onerous Contracts

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

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

Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in Note 34 to the accounts.

Contingent Assets

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

Contingent assets are not recognised in the Balance Sheet but disclosed in Note 34 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**xxii. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate Directorate in that year to score against the Surplus/Deficit on the Provision of

Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against Council Tax for the expenditure.

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

**xxiii. Council Tax and Business Rates**

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

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

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

**xxiv. Business Improvement Districts**

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

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

**xxv. Community Infrastructure Levy**

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

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

**xxvi. Events After the Reporting Period**

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

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

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

**xxvii. Joint Operations and Jointly Controlled Assets**

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

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

**xxviii. Council Acting as Agent**

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

**xxix. Value Added Tax**

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

**xxx. Foreign Currency Translation**

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

## Note 2
## Critical Judgements in Applying Accounting Policies

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

Going Concern
Local Authorities are required by the Code of Practice on Local Authority Accounting 2019/20 to prepare their accounts on the going concern basis, that is that the functions of the Council will continue in operational existence for the foreseeable future, as it can only be discontinued as a result of statutory prescription.

The Council continues to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, including those arising from equal pay claims. The Council has developed its medium to long term financial strategy, detailed in the Council's Financial Plan 2020 -24, and is meeting these budget challenges by developing multi-year savings plans and by funding investment to deliver these through the generation of capital receipts. The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has general fund balances and can redesignate earmarked reserves to meet any shortfall. On this basis, the Council considers that it can continue to meet its liabilities as they fall due, supporting the preparation of the financial statements on a going concern basis irrespective of the statutory requirements.

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

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

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

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

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

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

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

Whilst the Council is required to report the transactions of local authority maintained schools within its entity financial statements, it has not included details of employees of Voluntary Aided and Foundation Trust schools in Note 46, Officers' Remuneration, as they are employed by the relevant governing body.

The table below shows the number and type of schools within Birmingham at 31 March 2020.

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

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

Pension Guarantees

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

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

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

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

Service Concession Arrangements – Highways PFI

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

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

Leases

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

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

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

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

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

Further details on the Better Care Fund are provided in Note 49, Related Parties.

The Council acting as Agent

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

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

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

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

Details of the Council's role as agent for external resources are included in Note 50 to these financial statements.

Early Payment to the Local Government Pension Scheme

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

Sale of the NEC

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

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

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

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

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

<u>IFRS 16 - Leases</u>

IFRS 16 replaces IAS17 and changes the way entities account for leases in their financial statements. The standard requires that, for a lessee, the operating lease classification is removed that all leases, with the exception of low value or short term arrangements, are to be classified and accounted for as finance leases. The Code requires implementation of the standard from the financial year beginning 1 April 2021.

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

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

<u>Amendments to IAS 28 – Investments in Associates and Joint Ventures - Long-Term Interest in Associates and Joint Ventures</u>

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

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

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

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

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

<u>Amendments to IAS 19 – Employee Benefits, Plan Amendments, Curtailments or Settlements.</u>

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

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

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

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

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

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Heritage Asset Valuations (Museum's and Libraries' Archive Collections) | In the absence of recent transactions in a number of assets held in the Museum's and Libraries' Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets. | If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.4m with a corresponding adjustment in the level of unusable reserves. |
| Financial Instruments | Interest rate risk - the Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments. | An analysis of the impact if interest rates were 1% higher, with all other variables held constant, is set out in Note 40. |
| Long term obligations under, for example, PFI schemes | For service concessions, the carrying value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates. | The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £17.1m in 2020/21, and a further £321.9m over the remaining life of the contracts. |
| Equal Pay | The Council has included a provision of £153.2m for the settlement of claims for back pay arising from the Equal Pay initiative. The Council has based its estimate on the number of claims received and on historical information on settlement of similar claims and on the current negotiations with claimants' representatives. | An increase of 1% in the average level of settlement would have the effect of increasing the provision required by £1.5m. |
| Business Rate Appeals | An estimate of the impact of Business Rate appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims. | An increase of 1% in the average level of settlement would have the effect of £2.2m on the provision set aside. |
| Defined Benefit Pension Liability | The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2019/20. | A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 22 of these financial statements. |

**Note 5**
**Events After the Reporting Period**

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 28 August 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

*Future Resource Allocations*

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council's Financial Plan 2020 – 2024 sets out medium to long-term strategies for business changes and the management and development of its services. A key focus of business planning has been the achievement of the Council's priority outcomes through the adoption of a core set of corporate principles to inform service and organisational redesign where appropriate. The Council is planning to meet its anticipated expenditure reductions through a number of activities, including potential staff redundancies in 2020/21.

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

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

*Transfer of Academy Schools*

Academy Schools are not accounted for within the Council's financial statements. Where a school transfers to Academy status, it is deemed to be disposed of within the financial statements for nil consideration. Between 1 April 2020 and 10 August 2020, no schools have transferred to Academy School Trust status. To date 6 schools, with assets having a net book value of £46.4m at 31 March 2020, have confirmed their proposals to transfer to Academy School Trust status during 2020/21, together with a further school in 2021/22 with a net book value of £10.0m.

*Payment to Local Government Pension Scheme*

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

*Highways Maintenance and Management PFI*

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

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

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

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

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

*Chief Executive*

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

*Commonwealth Games*

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

*Other Events*

There were no other significant events after the reporting period.

## Note 6
## Expenditure and Funding Analysis

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

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

| 2019/20 | Net Expenditure Reported to Cabinet | Adjustment to arrive at the Net Amount Chargeable to the General Fund and HRA Balances (Note 7) | **Net Expenditure Chargeable to the General Fund and HRA Balances** | Adjustments between Funding and Accounting Basis (Note 7) | Net Expenditure in the Comprehensive Income and Expenditure Statement |
|---|---|---|---|---|---|
| | £m | £m | **£m** | £m | £m |
| Adult Social Care | 318.7 | 11.0 | **329.7** | 10.2 | **339.9** |
| Education and Skills | 275.1 | (3.7) | **271.4** | 86.0 | **357.4** |
| Neighbourhoods | 127.7 | (4.7) | **123.0** | 10.0 | **133.0** |
| Inclusive Growth | 98.7 | (86.6) | **12.1** | 20.2 | **32.3** |
| Human Resources | 6.3 | (0.1) | **6.2** | (0.2) | **6.0** |
| Digital & Customer Services | 31.4 | 1.5 | **32.9** | 2.7 | **35.6** |
| Partnerships, Insight & Prevention | 6.6 | (0.8) | **5.8** | (0.2) | **5.6** |
| Finance & Governance | 24.6 | (33.3) | **(8.7)** | 6.0 | **(2.7)** |
| Centrally Managed | (37.5) | 24.7 | **(12.8)** | (39.4) | **(52.2)** |
| Superannuation adjustment | - | - | **-** | 11.8 | **11.8** |
| Housing Revenue Account | - | (45.5) | **(45.5)** | (37.7) | **(83.2)** |
| **Net Cost of Services** | **851.6** | **(137.5)** | **714.1** | **69.4** | **783.5** |
| Other Income and Expenditure | (851.6) | 44.9 | **(806.7)** | (60.2) | **(866.9)** |
| **(Surplus)/Deficit** | **-** | **(92.6)** | **(92.6)** | **9.2** | **(83.4)** |
| Opening General Fund and HRA Balance | | | **565.5** | | |
| Surplus/(Deficit) for the Year | | | 92.6 | | |
| Closing General Fund and HRA Balance | | | **658.1** | | |

## Note 7
## Note to the Expenditure and Funding Analysis

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

| 2018/19 (Restated) | Depreciation reported at Directorate Level | Reserve Appropriation | Other Adjustments (Note (a)) | Total to arrive at amount charged to the General Fund and HRA | Adjustments for Capital Purposes | Net Change for the Pensions Adjustment | Other Adjustments (Note (b)) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Adult Social Care | 7.8 | (6.3) | (3.3) | **(1.8)** | 6.0 | - | (0.1) | **5.9** |
| Education and Skills | 137.6 | 9.0 | 8.2 | **154.8** | 70.4 | - | (11.8) | **58.6** |
| Neighbourhoods | 33.0 | (2.2) | (0.3) | **30.5** | 12.6 | - | (6.3) | **6.3** |
| Inclusive Growth | 68.4 | (83.9) | (25.0) | **(40.5)** | 30.4 | - | (0.8) | **29.6** |
| Human Resources | - | 0.2 | 0.7 | **0.9** | 0.0 | - | 0.0 | **0.0** |
| Digital & Customer Services | 6.5 | 3.9 | 4.7 | **15.1** | 1.8 | - | 0.0 | **1.8** |
| Partnerships, Insight & Prevention | 0.1 | (2.4) | 0.3 | **(2.0)** | 0.0 | - | 0.0 | **0.0** |
| Finance & Governance | 6.8 | 1.1 | (26.4) | **(18.5)** | 1.4 | - | (0.4) | **1.0** |
| Centrally Managed | 0.1 | 28.8 | (242.3) | **(213.4)** | 181.3 | (1.2) | (2.3) | **177.8** |
| Superannuation adjustment | | | 10.3 | **10.3** | | (45.2) | 0.0 | **(45.2)** |
| Housing Revenue Account | 52.3 | (0.3) | (91.5) | **(39.5)** | 79.5 | 10.3 | (140.9) | **(51.1)** |
| **Net Cost of Services** | **312.6** | **(52.1)** | **(364.6)** | **(104.1)** | **383.4** | **(36.1)** | **(162.6)** | **184.7** |
| Other Income and Expenditure | (312.6) | - | 364.6 | **52.0** | (65.5) | 63.6 | (18.3) | **(20.2)** |
| **(Surplus)/Deficit** | **-** | **(52.1)** | **-** | **(52.1)** | **317.9** | **27.5** | **(180.9)** | **164.5** |

| 2019/20 | Depreciation reported at Directorate Level | Reserve Appropriation | Other Adjustments (Note (a)) | Total to arrive at amount charged to the General Fund and HRA | Adjustments for Capital Purposes | Net Change for the Pensions Adjustment | Other Adjustments (Note (b)) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Adult Social Care | (3.6) | 17.2 | (2.6) | **11.0** | 12.3 | (2.1) | 0.0 | **10.2** |
| Education and Skills | (77.9) | (8.5) | 82.7 | **(3.7)** | 89.1 | (6.5) | 3.4 | **86.0** |
| Neighbourhoods | (18.3) | (1.3) | 14.9 | **(4.7)** | 13.6 | (2.6) | (1.0) | **10.0** |
| Inclusive Growth | (37.6) | (26.5) | (22.5) | **(86.6)** | 27.1 | (0.9) | (6.0) | **20.2** |
| Human Resources | - | (0.4) | 0.3 | **(0.1)** | 0.0 | (0.2) | 0.0 | **(0.2)** |
| Digital & Customer Services | (2.7) | (0.9) | 5.1 | **1.5** | 4.4 | (1.7) | 0.0 | **2.7** |
| Partnerships, Insight & Prevention | - | (0.8) | (0.0) | **(0.8)** | 0.0 | (0.2) | 0.0 | **(0.2)** |
| Finance & Governance | (1.5) | (3.0) | (28.8) | **(33.3)** | 7.6 | (1.4) | (0.2) | **6.0** |
| Centrally Managed | (0.1) | (66.8) | 91.6 | **24.7** | 69.5 | (3.2) | (105.7) | **(39.4)** |
| Superannuation adjustment | - | | 0.0 | **0.0** | | 11.8 | | **11.8** |
| Housing Revenue Account | (54.3) | (1.6) | 10.4 | **(45.5)** | 91.1 | 2.7 | (131.5) | **(37.7)** |
| **Net Cost of Services** | **(196.0)** | **(92.6)** | **151.1** | **(137.5)** | **314.7** | **(4.3)** | **(241.0)** | **69.4** |
| Other Income and Expenditure | 196.0 | - | (151.1) | **44.9** | (101.5) | 57.1 | (15.8) | **(60.2)** |
| **(Surplus)/Deficit** | **-** | **(92.6)** | **-** | **(92.6)** | **213.2** | **52.8** | **(256.8)** | **9.2** |

Notes

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

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

## Note 8
## Prior Period Restatement of Service Expenditure and Income

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

| Directorate Reporting 2018/19 | As Reported in the Comprehensive Income and Expenditure Statement 2018/19 | Adjustments in Internal Directorate Reporting Classifications between years | As Restated in 2018/19 | New Directorate Reporting 2018/19 |
|---|---|---|---|---|
| | £m | £m | £m | |
| **Net Expenditure** | | | | |
| Continuing Operations | | | | |
| Adult Social Care & Health | 333.4 | (3.7) | 329.7 | Adult Social Care |
| Children & Young People | 440.8 | 37.2 | 478.0 | Education and Skills |
| Place | 210.2 | (44.3) | 165.9 | Neighbourhoods |
| Economy | 82.6 | 3.0 | 85.6 | Inclusive Growth |
| Human Resources | 17.1 | (10.8) | 6.3 | Human Resources |
| Strategic Services | 40.2 | (40.2) | - | |
| | | 42.8 | 42.8 | Digital & Customer Services |
| | | 4.0 | 4.0 | Partnerships, Insight & Prevention |
| Finance & Governance | (10.6) | 19.1 | 8.5 | Finance & Governance |
| Centrally Managed | (54.9) | (4.6) | (59.5) | Centrally Managed |
| Superannuation adjustment | (34.9) | 0.0 | (34.9) | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | 2.5 | (2.5) | | |
| Housing Revenue Account | (90.6) | 0.0 | (90.6) | Housing Revenue Account |
| **Net Cost of Services** | **935.8** | **-** | **935.8** | |
| **Gross Expenditure** | | | | |
| Continuing Operations | | | | |
| Adult Social Care & Health | 547.0 | (94.8) | 452.2 | Adult Social Care |
| Children & Young People | 1,248.0 | 56.6 | 1,304.6 | Education and Skills |
| Place | 294.0 | (58.2) | 235.8 | Neighbourhoods |
| Economy | 179.8 | (6.4) | 173.4 | Inclusive Growth |
| Human Resources | 18.8 | (10.8) | 8.0 | Human Resources |
| Strategic Services | 591.1 | (591.1) | | |
| | | 591.4 | 591.4 | Digital & Customer Services |
| | | 97.7 | 97.7 | Partnerships, Insight & Prevention |
| Finance & Governance | 3.6 | 15.9 | 19.5 | Finance & Governance |
| Centrally Managed | 3.7 | 2.5 | 6.2 | Centrally Managed |
| Superannuation adjustment | (34.9) | - | (34.9) | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | 2.8 | (2.8) | | |
| Housing Revenue Account | 194.2 | - | 194.2 | Housing Revenue Account |
| **Gross Cost of Services** | **3,048.1** | **-** | **3,048.1** | |
| **Gross Income** | | | | |
| Continuing Operations | £m | £m | £m | |
| Adult Social Care & Health | (213.6) | 91.1 | (122.5) | Adult Social Care |
| Children & Young People | (807.2) | (19.4) | (826.6) | Education and Skills |
| Place | (83.8) | 13.9 | (69.9) | Neighbourhoods |
| Economy | (97.2) | 9.4 | (87.8) | Inclusive Growth |
| Human Resources | (1.7) | - | (1.7) | Human Resources |
| Strategic Services | (550.9) | 550.9 | | |
| | | (548.6) | (548.6) | Digital & Customer Services |
| | | (93.7) | (93.7) | Partnerships, Insight & Prevention |
| Finance & Governance | (14.2) | 3.2 | (11.0) | Finance & Governance |
| Centrally Managed | (58.6) | (7.1) | (65.7) | Centrally Managed |
| Superannuation adjustment | - | - | - | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | (0.3) | 0.3 | | |
| Housing Revenue Account | (284.8) | - | (284.8) | Housing Revenue Account |
| **Gross Income of Services** | **(2,112.3)** | **-** | **(2,112.3)** | |

## Note 9
## Expenditure and Funding Analysis by Nature of Activity

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

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

## Note 10
## Material Items of Income and Expense

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

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

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

Following SeRCOP guidance, the Council considers that to leave past service costs and settlement costs within the Directorate analysis would distort the presentation of segmental costs within the Comprehensive Income and Expenditure Statement. The values of past service costs and the costs of settlement were considered material in 2018/19 due to the assessed impact of the McCloud/Sergeant judgement and the transfer of staff from the Council to external providers, including to Birmingham Children's Trust CIC and shown separately on the face of the Comprehensive Income and Expenditure Statement, with a net value of £11.8m in 2019/20 (2018/19, (£34.9m)).

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

**Note 11**
**Other Operating Expenditure**

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

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

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

## Note 12
## Financing and Investment Income and Expenditure

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

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

## Note 13
## Taxation and Non Specific Grant Income and Expenditure

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

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

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

**Note 14**
**Trading Operations**

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

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

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

Details of Trading Activities

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

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

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

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

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

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

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

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

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

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

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

## Note 15
## Revenue from Contracts with Service Recipients

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

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

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

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

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

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

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

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

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

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

**Note 16**
**Grant Income**

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

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

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

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2019/20. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

**Note 17**
**Dedicated Schools Grant**

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

Details of the deployment of DSG receivable for 2019/20 are as follows:

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

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

- A net deficit of £14.0m on the High Needs Block which reflects the demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision. This has been compounded by increases in the costs of provision particularly where the placements are in the independent sector. The service has obtained Schools Forum agreement to repay the deficit back at £5.0m a year starting in 2020/21 followed by a further £5.0m in 2021/22 with the remainder being repaid in 2022/23.

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

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

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

## Note 18
## Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

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

<u>General Fund Balance</u>

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

<u>Housing Revenue Account Balance</u>

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

<u>Major Repairs Reserve</u>

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

<u>Capital Receipts Reserve</u>

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

<u>Capital Grants Unapplied</u>

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

| 2019/20 | 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) | 50.1 | 2.7 | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | 18.7 | - | - | - | - |
| Council Tax and Business Rates (transfers to/from the Collection Fund) | 24.6 | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | 2.8 | - | - | - | - |
| Equal pay settlements (transferred to/from the Unequal Pay Backpay Account) | (20.0) | (1.3) | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 126.3 | 91.1 | - | - | 111.0 |
| **Total Adjustments to Revenue Resources** | **202.5** | **92.5** | **-** | **-** | **111.0** |
| | | | | | |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (27.2) | (49.9) | 64.6 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 1.0 | - | (1.0) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 18.3 | - | (18.3) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.2 | - | (6.2) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (53.8) | - | 53.8 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (145.2) | (18.2) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (8.7) | (8.3) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(155.6)** | **(130.2)** | **39.1** | **53.8** | **-** |
| | | | | | |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (61.5) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (1.9) | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (54.2) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (75.1) |
| Cash payments in relation to deferred capital receipts | - | - | 7.2 | - | - |
| Other | - | - | 0.1 | - | - |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(56.1)** | **(54.2)** | **(75.1)** |
| | | | | | |
| **Total Adjustments** | **46.9** | **(37.7)** | **(17.0)** | **(0.4)** | **35.9** |

| 2018/19 | General Fund Balance £m | Housing Revenue Account £m | Capital Receipts Reserve £m | Major Repairs Reserve £m | Capital Grants Unapplied £m |
|---|---|---|---|---|---|
| **Adjustments to Revenue Resources** | | | | | |
| Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: | | | | | |
| Pension costs (transferred to/from the Pensions Reserve) | 17.2 | 10.3 | - | - | - |
| Financial Instruments (transferred to/from the Financial Instrument Adjustments Account) | 22.4 | - | - | - | - |
| Council Tax and Business Rates (transfers to/from the Collection Fund) | 8.0 | - | - | - | - |
| Holiday Pay (transferred to/from the Accumulated Absences Reserve) | (5.9) | - | - | - | - |
| Equal pay settlements (transferred to/from the Unequal Pay Backpay Account) | 20.7 | 2.0 | - | - | - |
| Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 241.0 | 79.5 | - | - | 72.0 |
| **Total Adjustments to Revenue Resources** | **303.4** | **91.8** | **-** | **-** | **72.0** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (28.8) | (55.6) | 83.4 | - | - |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve) | 1.6 | - | (1.6) | - | - |
| Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve) | 86.2 | - | (86.2) | - | - |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | 6.3 | - | (6.3) | - | - |
| Posting of HRA resources from revenue to the Major Repairs Reserve | - | (51.7) | - | 51.7 | - |
| Provision for the repayment of debt (transfer to the Capital Adjustment Account) | (139.8) | (35.4) | - | - | - |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | (13.3) | (0.2) | - | - | - |
| **Total Adjustments between Revenue and Capital Resources** | **(87.8)** | **(142.9)** | **(10.7)** | **51.7** | **-** |
| **Adjustments to Capital Resources** | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | - | (57.8) | - | - |
| Use of the Capital Receipts Reserve to repay debt | - | - | (53.1) | - | - |
| Use of the Major Repairs Reserve to finance capital expenditure | - | - | - | (55.4) | - |
| Application of capital grants to finance capital expenditure | - | - | - | - | (72.2) |
| Cash payments in relation to deferred capital receipts | - | - | 3.9 | - | - |
| Other | - | - | 37.6 | - | (0.1) |
| **Total Adjustments to Capital Resources** | **-** | **-** | **(69.4)** | **(55.4)** | **(72.3)** |
| **Total Adjustments** | **215.6** | **(51.1)** | **(80.1)** | **(3.7)** | **(0.3)** |

## Note 19
## Usable Reserves

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

The Reserves have been split into the following major categories:

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

| **Usable Reserves** | Balance at 31 March 2019 | Transfers out 2019/20 | Transfers In 2019/20 | Balance at 31 March 2020 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Unearmarked Reserves** | | | | |
| General Fund Balances | 35.4 | (3.1) | - | 32.3 |
| Organisation Transition Reserve | 41.7 | (17.2) | - | 24.5 |
| Financial Resilience Reserve | 66.9 | (14.5) | 23.7 | 76.2 |
| **Total Unearmarked Reserves** | **144.0** | **(34.8)** | **23.7** | **133.0** |
| **Earmarked Reserves** | | | | |
| Insurance Fund | 9.8 | (2.3) | 1.9 | 9.4 |
| Sums set aside to finance Capital Expenditure | 46.0 | (0.2) | 3.8 | 49.6 |
| Housing Benefit Subsidy Reserve | 4.2 | - | - | 4.2 |
| Cyclical Maintenance Reserve | 10.7 | - | 3.1 | 13.8 |
| Equipment Renewal Reserve | 5.9 | (1.9) | 2.2 | 6.2 |
| Management Capacity for Change | 2.8 | (0.4) | 1.1 | 3.5 |
| Business Rates | 12.3 | (5.3) | 14.3 | 21.3 |
| Covid-19 Support | - | - | 38.7 | 38.7 |
| Education PFI | - | - | 3.4 | 3.4 |
| Other Earmarked Reserves | 14.8 | (5.8) | 34.0 | 43.0 |
| **Total Reserves Earmarked by the Council** | **106.5** | **(15.9)** | **102.5** | **193.1** |

| Usable Reserves | Balance at 31 March 2019 | Transfers out 2019/20 | Transfers In 2019/20 | Balance at 31 March 2020 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Revenue Grant Reserves** | | | | |
| Section 256 Grant from the NHS | 1.1 | - | - | 1.1 |
| Public Health | 5.2 | (4.7) | 4.6 | 5.1 |
| Better Care Fund | 25.0 | (24.2) | 5.1 | 5.9 |
| Highways PFI Grant | 180.8 | (53.6) | 67.2 | 194.4 |
| Section 106 Grants - General Fund | 26.0 | (5.4) | 7.1 | 27.7 |
| Section 106 Grants - Housing Revenue Account | - | - | 1.5 | 1.5 |
| Community Infrastructure Levy | 9.6 | - | 4.2 | 13.8 |
| National Business Rate Levy | 5.4 | (5.4) | 0.8 | 0.8 |
| Other Grant Reserves | 14.9 | (8.2) | 20.3 | 27.0 |
| **Total Revenue Grant Reserves** | **268.0** | **(101.5)** | **110.8** | **277.3** |
| **Unearmarked Non-Schools DSG** | | | | |
| Unearmarked Non-Schools DSG | (8.7) | (4.6) | 4.8 | (8.5) |
| **Total Unearmarked Non-Schools DSG** | **(8.7)** | **(4.6)** | **4.8** | **(8.5)** |
| **Ringfenced Reserves** | | | | |
| Schools' Balances | 50.3 | (2.6) | 6.9 | 54.6 |
| Housing Revenue Account | 5.4 | - | 3.1 | 8.5 |
| HRA Major Repairs Reserve | 24.8 | (54.2) | 53.8 | 24.4 |
| **Total Ringfenced Reserves** | **80.5** | **(56.8)** | **63.8** | **87.5** |
| **Capital Reserves** | | | | |
| Capital Receipts Reserve | 240.4 | (89.0) | 72.0 | 223.4 |
| Capital Grants Unapplied | 106.7 | (75.1) | 111.0 | 142.6 |
| **Total Capital Reserves** | **347.1** | **(164.1)** | **183.0** | **366.0** |
| **Total Usable Reserves** | **937.4** | **(377.7)** | **488.6** | **1,048.4** |

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

Unearmarked Reserves comprising:

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

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

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

Earmarked Reserves comprising:

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

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

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

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

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

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

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

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

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

Covid-19 Support – reflects the remaining balance of government funding received in the 2019/20 financial year to offset the additional costs incurred by the Council as a result of the Covid-19 pandemic.

Education PFI – reflects the sum set aside to meet the profiled schedule of future years payments.

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery.

The reserves cover a wide range of areas and include, for example, resources earmarked for special educational needs reform, a local innovations fund, highways initiatives, subvention for major events including the Commonwealth Games, replacement IT systems and repairs and maintenance for specific service chargeable buildings in support of the Financial Plan.

Revenue Grant reserves comprising:

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

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

The increase in reserve in 2019/20 is partly due to the full repayment of resources that had previously been used on a short term repayable basis to support budget pressures and transformation plans within the Council.

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 40 (2018/19:53) schools with deficit balances totalling £9.2m (2018/19: £12.6m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £14.1m (2018/19: £15.5m) as a result of the impact of increasing numbers of pupils with Special Educational Needs.

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

HRA Major Repairs Reserve – the Council is required by The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

Capital reserves comprising:

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statue, for example to meet costs of Equal Pay.

Capital Grants Unapplied – reflect the unused element of capital grants or capital contributions awarded to the Council, for which the conditions of the grant support are expected to be met or for which there are no conditions. The reserve will be used to meet future years' capital expenditure.

**Note 20**
**Unusable Reserves**

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

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 1,996.9 | Revaluation Reserve | 1,976.5 |
| (339.7) | Capital Adjustment Account | (214.4) |
| (48.1) | Financial Instruments Adjustment Account | (67.0) |
| (2,676.2) | Pensions Reserve | (2,591.3) |
| 37.7 | Deferred Capital Receipts Reserve | 42.4 |
| 10.0 | Collection Fund Adjustment Account | (14.6) |
| (174.5) | Equal Pay Back Pay Account | (153.2) |
| (14.0) | Accumulated Absences Account | (16.7) |
| **(1,207.9)** | **Total Unusable Reserves** | **(1,038.3)** |

Revaluation Reserve

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

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

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

The Reserve balance has been reduced by £27.6m as at 1 April 2018 as a result of the prior period adjustment relating to the leasehold disposal of the Council's interest in the Crowne Plaza NEC and Hilton Metropole NEC hotels as detailed in Note 23, Prior Period Adjustment.

| 2018/19 | | | 2019/20 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **1,885.4** | **Balance at 1 April** | | **1,996.9** |
| | (27.6) | Adjustment to Opening Balance (Note 23) | | |
| | **1,857.8** | **Restated Balance at 1 April** | | **1,996.9** |
| 430.4 | | Upward revaluation of assets | 349.3 | |
| (199.5) | | Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services | (289.7) | |
| - | | Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of Services | - | |
| | 230.9 | Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services | | 59.6 |
| (51.1) | | Difference between fair value depreciation and historical cost depreciation | (36.4) | |
| (40.7) | | Accumulated gains on assets sold or scrapped | (43.6) | |
| - | | Adjustment for Transfer of land to Investment Property | - | |
| | (91.8) | Amount written off to the Capital Adjustment Account | | (80.0) |
| | **1,996.9** | **Balance at 31 March** | | **1,976.5** |

Capital Adjustment Account

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

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

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

| 2018/19 £m | 2018/19 £m | | 2019/20 £m | 2019/20 £m |
|---|---|---|---|---|
| | **(428.9)** | **Balance at 1 April** | | **(339.7)** |
| | (0.5) | Adjustment for the Restatement of Financial Instruments | | - |
| | (0.3) | Transfer from Available for Sale Reserve | | - |
| | **(429.7)** | **Restated Opening Balance at 1 April** | | **(339.7)** |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES): | | |
| (305.5) | | Charges for depreciation and impairment of non current assets | (127.5) | |
| 1.4 | | Revaluation losses on Property, Plant and Equipment | (63.6) | |
| (8.2) | | Amortisation and impairment of intangible assets | (3.2) | |
| 1.4 | | Changes in the Fair Value of Investment Properties | 0.5 | |
| (2.8) | | Changes in the Fair Value of Financial Instruments | (4.1) | |
| (0.4) | | Impairment of Capital Debtors/Grants | 0.2 | |
| (59.5) | | Revenue expenditure funded from capital under statute | (96.8) | |
| (88.3) | | Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | (161.4) | |
| | (461.9) | | | (455.9) |
| | 91.8 | Adjusting amounts written out of the Revaluation Reserve | | 80.0 |
| | (370.1) | Net written out amount of the cost of non-current assets consumed in the year | | (375.9) |
| | | Capital financing applied in the year: | | |
| 57.8 | | Use of the Capital Receipts Reserve to finance new capital expenditure | 61.5 | |
| 55.4 | | Use of the Major Repairs Reserve to finance new capital expenditure | 54.2 | |
| 70.3 | | Capital grants and contributions credited to the CIES that have been applied to capital financing | 128.2 | |
| 72.2 | | Application of grants to capital financing from the Capital Grants Unapplied Account | 75.1 | |
| 53.1 | | Application of capital receipts to repay debt | 1.9 | |
| 175.2 | | Provision for the financing of capital investment charged against the General Fund and HRA balances | 163.4 | |
| 13.5 | | Capital expenditure charged against the General Fund and HRA balances | 17.0 | |
| | 497.5 | | | 501.3 |
| | 0.2 | Financing of capital grant repayment | | - |
| | (37.6) | Repayment of long term debtors | | (0.1) |
| | **(339.7)** | **Balance at 31 March** | | **(214.4)** |

## Financial Instruments Adjustment Account

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

In the 2019/20 financial year, the Council agreed the early repayment of three long term loans with the lenders, at a total premium of £18.0m (2018/19: £23.4m).

| 2018/19 | | | 2019/20 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **(25.9)** | **Balance at 1 April** | | **(48.1)** |
| (23.4) | | Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement | (18.0) | |
| 1.2 | | Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (0.9) | |
| | (22.2) | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | (18.9) |
| | **(48.1)** | **Balance at 31 March** | | **(67.0)** |

## Pensions Reserve

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

Generally, the Pensions Reserve will match exactly the Pension Liabilities recorded on the Balance Sheet at the end of each year. However, the Council made an advance payment of £373.2m in April 2017 to cover its estimated contributions for the three-year period to 31 March 2020. However, as indicated above, the Council is only required to account for the amount payable in year. The difference of £124.0m at 31 March 2019 between the Pensions Reserve and the Pension Liabilities has been eliminated as at 31 March 2020 reflecting the contributions in 2019/20.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **(2,836.1)** | **Balance at 1 April** | **(2,676.2)** |
| 187.4 | Remeasurement of the net defined benefit liability | 137.6 |
| (169.5) | Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (201.9) |
| 142.0 | Employer’s pensions contributions and direct payments to retirees payable in the year | 149.2 |
| **(2,676.2)** | **Balance at 31 March** | **(2,591.3)** |

<u>Deferred Capital Receipts Reserve</u>

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **41.8** | **Balance at 1 April** | **37.7** |
| (1.2) | Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations | (0.5) |
| 1.0 | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 12.5 |
| (3.9) | Transfer to the Capital Receipts Reserve upon receipt of cash | (7.3) |
| **37.7** | **Balance at 31 March** | **42.4** |

Collection Fund Adjustment Account

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **18.0** | **Balance at 1 April** | **10.0** |
| (8.0) | Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/Business Rates income calculated for the year in accordance with statutory requirements | (24.6) |
| **10.0** | **Balance at 31 March** | **(14.6)** |

Equal Pay Back Pay Account

The Equal Pay Back Pay Account compensates for the differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **(151.8)** | **Balance at 1 April** | **(174.5)** |
| (110.5) | (Increase)/reduction in provision for back pay in relation to Equal Pay cases | 2.0 |
| 87.8 | Cash settlements paid in the year | 19.3 |
| (22.7) | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 21.3 |
| **(174.5)** | **Balance at 31 March** | **(153.2)** |

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **(19.9)** | **Balance at 1 April** | **(14.0)** |
| - | Settlement or cancellation of accrual made at the end of the preceding year | - |
| 5.9 | Amounts accrued at the end of the current year | (2.7) |
| 5.9 | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (2.7) |
| **(14.0)** | **Balance at 31 March** | **(16.7)** |

**Note 21**
**Pension Schemes Accounted for as Defined Contribution Schemes**

Teachers' Pension Scheme

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

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

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

In 2019/20, the Council paid £41.3m (2018/19: £34.7m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% from 1 April 2019 and 23.68% from 1 September 2019 (2018/19 16.48%) of pensionable pay. The contributions due to be paid in the 2020/21 financial year are estimated to be £47.3m on the basis of employer contributions of 23.68%.

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

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

NHS Pension Scheme

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

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

In 2019/20, the Council paid £0.84m (2018/19: £0.12m) to the NHS Pensions Scheme in respect of employees' retirement benefits, representing 14.68% (2018/19: 14.38%) of pensionable pay. There were £0.2m of contributions remaining payable at the year end. The contributions due to be paid in the 2020/21 financial year are estimated to be £0.12m on the basis of an employer contribution rate of 20.68%.

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

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

**Note 22**
**Defined Benefit Pension Schemes**

Participation in Pension Schemes

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

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

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 18.3% was set for the Council for 2019/20 (2018/19: 16.8%).

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

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

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

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

Transactions relating to Post-employment benefits

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

The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year. The major movements from 2018/19 to 2019/20 in the table relate to:

- Effect of past service costs/curtailments – the reduction from 2018/19 to 2019/20 is mainly as a result of the initial recognition last year of the assessed impact arising from the McCloud/Sargeant judgement regarding age discrimination arising from public sector transition arrangements put in place when moving from final salary to average salary scheme arrangements.

- Effect of settlements – on 1 April 2018 the transfer of staff from the Council to Birmingham Children's Trust CIC formed a major element of the settlement costs for that financial year. In 2019/20, the level of staff transfers has been lower.

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| | £m | £m | £m | £m |
| Comprehensive Income and Expenditure Statement | | | | |
| Cost of Services: | | | | |
| current service cost | 128.3 | 131.3 | | |
| past service costs, including curtailments | 55.3 | 19.4 | | |
| effect of settlements | (79.7) | (7.6) | | |
| administration expenses | 2.0 | 2.7 | | |
| Financing and investment income and expenditure: | | | | |
| Net interest expense | 62.0 | 59.5 | 1.6 | 1.3 |
| **Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services** | **167.9** | **205.3** | **1.6** | **1.3** |
| **Movement in Reserves Statement** | | | | |
| Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code | (155.9) | (180.4) | 4.4 | 3.5 |
| Release from pension reserve re:prepayment | 124.0 | 124.2 | | |
| **Net charge against the General Fund Balance for pensions in the year comprising:** | | | | |
| **employer's contributions payable to scheme** | **136.0** | **149.1** | | |
| **retirement benefits payable to retirees** | | | **6.0** | **4.8** |

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| | £m | £m | £m | £m |
| Comprehensive Income and Expenditure Statement | | | | |
| Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services | 167.9 | 205.3 | 1.6 | 1.3 |
| Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement | | | | |
| remeasurements (liabilities and assets) | (185.6) | (139.2) | (1.8) | 1.6 |
| **Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement** | (17.7) | 66.1 | (0.2) | 2.9 |

| | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m | 2019/20 £m |
|---|---|---|---|---|---|
| **Present Value of Liabilities** | | | | | |
| - Local Government Pension Scheme | (5,284.8) | (6,863.0) | (6,919.7) | (6,706.6) | (6,552.9) |
| - Unfunded Teachers' Scheme | (68.5) | (64.2) | (68.5) | (62.2) | (60.4) |
| **Total Present Value of Liabilities** | **(5,353.3)** | **(6,927.2)** | **(6,988.2)** | **(6,768.8)** | **(6,613.3)** |
| Fair Value of Assets in the Local Government Pension Scheme | 3,265.6 | 4,056.6 | 4,400.3 | 4,216.8 | 4,022.0 |
| **Surplus/(Deficit) in the scheme** | | | | | |
| - Local Government Pension Scheme | (2,019.2) | (2,806.4) | (2,519.4) | (2,489.7) | (2,530.9) |
| - Unfunded Teachers' Scheme | (68.5) | (64.2) | (68.5) | (62.2) | (60.4) |
| **Net Liability arising from defined benefit obligation** | **(2,087.7)** | **(2,870.7)** | **(2,587.9)** | **(2,552.0)** | **(2,591.3)** |

## Pension Assets and Liabilities Recognised in the Balance Sheet

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

| | Local Government Pension Scheme | | | | Unfunded Teachers' Pension Scheme | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2018/19 £m | 2019/20 £m | 2018/19 £m | 2019/20 £m | 2018/19 £m | 2019/20 £m | **2018/19 £m** | **2019/20 £m** |
| Benefit Obligation at 1 April | 6,854.8 | 6,647.4 | 64.9 | 59,2 | 68.4 | 62.2 | **6,988.2** | **6,768.8** |
| Current Service Cost | 128.3 | 131.3 | | | | | **128.3** | **131.3** |
| Interest on Pension Liabilities | 166.4 | 157.4 | 1.6 | 1.4 | 1.6 | 1.3 | **169.5** | **160.1** |
| Member Contributions | 23.0 | 22.3 | | | | | **23.0** | **22.3** |
| Actuarial (gains)/losses arising from changes in financial assumptions | 231.3 | (641.8) | 1.1 | (2.8) | 2.0 | (3.5) | **234.3** | **(648.0)** |
| Actuarial (gains)/losses arising from changes in demographic assumptions | (366.9) | 195.9 | (3.1) | 2.9 | (3.8) | 5.0 | **(373.8)** | **203.8** |
| Experience (gains)/losses on liabilities | | 166.6 | | 11.9 | | | | **178.5** |
| Past Service Cost/ Curtailments | 55.3 | 19.4 | | | | | **55.3** | **19.4** |
| Settlements | (249.9) | (12.0) | | | | | **(249.9)** | **(12.0)** |
| Unfunded Pension Payments | | | (5.3) | (5.5) | | | **(5.3)** | **(5.5)** |
| Benefits/Transfers paid | (194.9) | (200.5) | | | (6.0) | (4.6) | **(200.9)** | **(205.1)** |
| **Benefit Obligation at 31 March** | **6,647.4** | **6,485.9** | **59.2** | **67.0** | **62.2** | **60.4** | **6,768.8** | **6,613.3** |

## Reconciliation of the Movements in the Fair Value of Scheme Assets

| | Local Government Pension Scheme | | | | Unfunded Teachers' Pension Scheme | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2018/19 £m | 2019/20 £m | 2018/19 £m | 2019/20 £m | 2018/19 £m | 2019/20 £m | **2018/19 £m** | **2019/20 £m** |
| Fair Value of Assets at 1 April | 4,400.3 | 4,216.8 | - | - | | | **4,400.3** | **4,216.8** |
| Interest on Plan Assets | 105.9 | 99.3 | - | - | | | **105.9** | **99.3** |
| Remeasurements (assets) | 47.9 | (269.5) | - | - | | | **47.9** | **(269.5)** |
| Other actuarial gains/losses | - | 141.4 | - | - | | | | **141.4** |
| Administration expenses | (1.9) | (2.7) | - | - | | | **(1.9)** | **(2.7)** |
| Settlements | (170.1) | (4.5) | - | - | | | **(170.1)** | **(4.5)** |
| Employer contributions | 6.7 | 19.4 | 5.3 | 5.5 | 6.0 | 4.8 | **18.0** | **29.7** |
| Member contributions | 23.0 | 22.3 | | - | | | **23.0** | **22.3** |
| Benefits/transfers paid | (195.0) | (200.5) | (5.3) | (5.5) | (6.0) | (4.8) | **(206.3)** | **(210.8)** |
| **Fair Value of Assets at 31 March** | **4,216.8** | **4,022.0** | **-** | **-** | **-** | **-** | **4,216.8** | **4,022.0** |

Local Government Pension Scheme assets

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

| | 31 March 2019 | | | | 31 March 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted £m | Unquoted £m | Total £m | Percentage of Total % | Quoted £m | Unquoted £m | Total £m | Percentage of Total % |
| **Equity Instruments** | | | | | | | | |
| UK Quoted | 413.4 | | 413.4 | 9.8% | 438.5 | | 438.5 | 10.9% |
| UK Unquoted | | 58.5 | 58.5 | 1.4% | | 1.0 | 1.0 | 0.0% |
| Global Quoted | 399.9 | | 399.9 | 9.5% | 1,083.0 | | 1,083.0 | 26.9% |
| Global Unquoted | | 272.0 | 272.0 | 6.5% | | 148.0 | 148.0 | 3.7% |
| Europe | 366.1 | | 366.1 | 8.7% | | | | |
| Japan | 183.0 | | 183.0 | 4.3% | | | | |
| Pacific Basin | 188.5 | | 188.5 | 4.5% | | | | |
| Asia Pacific | | | | | 2.3 | | 2.3 | 0.1% |
| North America | 373.2 | | 373.2 | 8.9% | 0.2 | | 0.2 | 0.0% |
| Emerging Markets | 341.9 | | 341.9 | 8.1% | 285.3 | | 285.3 | 7.1% |
| **Sub-total Equity** | **2,266.1** | **330.5** | **2,596.6** | **61.6%** | **1,809.3** | **149.0** | **1,958.3** | **48.7%** |
| **Bonds** | | | | | | | | |
| UK Government | | 288.3 | 288.3 | 6.8% | 257.5 | 52.0 | 309.5 | 7.7% |
| Other | 190.1 | 199.9 | 390.0 | 9.2% | 127.5 | 456.1 | 583.6 | 14.6% |
| **Sub-total Bonds** | **190.1** | **488.2** | **678.3** | **16.1%** | **385.0** | **508.1** | **893.1** | **22.3%** |
| **Property** | | | | | | | | |
| UK | | 239.5 | 239.5 | 5.7% | 264.2 | | 264.2 | 6.6% |
| Overseas | | | | | | | | |
| Property Funds | | 95.2 | 95.2 | 2.3% | 94.0 | | 94.0 | 2.3% |
| **Sub-total Property** | | **334.7** | **334.7** | **7.9%** | **358.2** | | **358.2** | **8.9%** |
| **Alternatives** | | | | | | | | |
| Infrastructure | | 175.2 | 175.2 | 4.1% | 7.4 | 211.5 | 218.9 | 5.4% |
| Private Equity | | | | | | 334.0 | 334.0 | 8.3% |
| Long Term Debtors | | | | | | 28.3 | 28.3 | 0.7% |
| Absolute Return | | 166.9 | 166.9 | 4.0% | | 119.8 | 119.8 | 3.0% |
| **Sub-total Alternatives** | | **342.2** | **342.2** | **8.1%** | **7.4** | **693.6** | **701.0** | **17.4%** |
| **Cash** | | | | | | | | |
| Cash Instruments | | 228.8 | 228.8 | 5.4% | | 127.2 | 127.2 | 3.2% |
| Cash Accounts | | 36.2 | 36.2 | 0.9% | | 5.3 | 5.3 | 0.1% |
| **Sub-total Cash** | | **265.0** | **265.0** | **6.3%** | | **132.4** | **132.4** | **3.3%** |
| Forward Currency Contract | | | | | | (21.0) | (21.0) | (0.5)% |
| **Total Assets** | **2,456.2** | **1,760.6** | **4,216.8** | **100.0%** | **2,559.9** | **1,462.1** | **4,022.0** | **100.0%** |

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Barnett Waddingham Limited, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit method, an estimate of the pensions that will have to be paid in future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the actuary have been:

| Assumptions | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men (years) | 20.9 | 21.9 | 20.9 | 21.9 |
| Women (years) | 23.2 | 24.1 | 23.2 | 24.1 |
| Longevity at 65 for future pensioners retiring in 20 years: | | | | |
| Men (years) | 22.6 | 23.8 | n/a | n/a |
| Women (years) | 25.0 | 26.0 | n/a | n/a |
| Rate of CPI inflation | 2.4% | 1.9% | 2.5% | 1.95% |
| Rate of increase in salaries | 3.9% | 2.9% | n/a | n/a |
| Rate of increase in pensions | 2.4% | 1.9% | 2.5% | 1.95% |
| Rate for discounting of scheme liabilities | 2.4% | 2.35% | 2.2% | 2.25% |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, it is unlikely that isolated changes occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, that is, on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analyses below did not change from those used in the previous period.

| | Impact on the Defined Benefit Obligation in the Scheme | | |
|---|---|---|---|
| | Change in assumption | Impact on Council Liability | Impact on Council Deficit |
| | £m | % | % |
| Longevity assumptions (increase by 1 year) | 294.5 | 4.5% | 11.4% |
| Pension increase assumptions (increase by 0.1%) | 117.8 | 1.8% | 4.5% |
| Salary increase assumption (increase by 0.1%) | 10.3 | 0.2% | 0.4% |
| Discount scheme liability assumptions (increase by 0.1%) | (125.1) | (1.9%) | (4.8%) |

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 16 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2022 and will set contributions for the period for 1 April 2023 to 31 March 2026.

The Council has made a one-off contribution of £369.2m to the scheme in 2020/21 to cover the anticipated contributions for the three year period from 1 April 2020 to 31 March 2023 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs. Set out below are the contribution rates for the period to 31 March 2023.

| Financial Year | Employer's Future Service Contribution Rate | Past Service Cost Deficit Payment |
|---|---|---|
| | % | £m |
| 2020/21 | 21.3 | 48.2 |
| 2021/22 | 21.3 | 49.9 |
| 2022/23 | 21.3 | 51.8 |

**Note 23**
**Prior Period Restatement**

In 2017/18 the Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in the Crowne Plaza NEC and Hilton Metropole NEC Hotels. The sale was completed on 15 March 2018.

Prior to March 2018, the leasehold interest in the two hotels had 83 and 57 years to run respectively, but upon completion, the leases were granted to Propco for 122 years, to be co-terminus with the leasehold disposal of the main NEC site, which expires in 2140.

At the time, the leasehold interests in the hotels were accounted for as operating leases granted, with the land assets retained on the Council's Balance Sheet as non-current assets at a value of £27.6m. However, with the assignment of the extended interest to Birmingham City Propco Ltd, the leases were deemed to be finance lease disposals, in line with the Council's accounting policies, and as a result requiring the removal of the non-current assets from the Balance Sheet. Whilst the leases were removed from the entity accounts, the non-current assets were retained on the Balance Sheet in error, thereby overstating the value of non-current assets in the 2017/18 and 2018/19 Financial Statements.

The impact of the disposal is to reduce the value non-current assets within the Balance Sheet, offset by a reduction in the Revaluation Reserve, the unusable reserve which contains the gain made by the Council upon revaluation of these assets.

Details of the impact of the prior year adjustment within the Balance Sheet are set out below:

| | Original Opening Balance as at 1 April 2018 £m | Prior Period Adjustment £m | Restated Opening Balance as at 1 April 2018 £m |
|---|---|---|---|
| **Assets and Liabilities** | | | |
| Property, Plant & Equipment | 5,719.9 | (27.6) | 5,692.3 |
| **Total Long Term Assets** | **6,164.4** | **(27.6)** | **6,136.8** |
| **Net Assets/Liabilities** | **(547.8)** | **(27.6)** | **(575.4)** |
| | | | |
| **Balanced by:** | | | |
| Revaluation Reserve | 1,885.4 | (27.6) | 1,857.8 |
| **Total Unusable Reserves** | **(1,517.7)** | **(27.6)** | **(1,545.3)** |
| **Total Reserves** | **(547.8)** | **(27.6)** | **(575.4)** |

As land assets are not subject to depreciation, there has been no impact on the Comprehensive Income and Expenditure Statement for 2018/19. The impact of the adjustment on the published 2018/19 Financial Statements is set out below:

| | Original Closing Balance as at 31 March 2019 £m | Prior Period Adjustment £m | Restated Closing Balance as at 31 March 2019 £m |
|---|---|---|---|
| **Assets and Liabilities** | | | |
| Property, Plant & Equipment | 5,828.9 | (27.6) | 5,801.3 |
| **Total Long Term Assets** | **6,255.4** | **(27.6)** | **6,227.8** |
| **Net Assets/Liabilities** | **(242.9)** | **(27.6)** | **(270.5)** |
| | | | |
| **Balanced by:** | | | |
| Revaluation Reserve | 2,024.5 | (27.6) | 1,996.9 |
| **Total Unusable Reserves** | **(1,180.3)** | **(27.6)** | **(1,207.9)** |
| **Total Reserves** | **(242.9)** | **(27.6)** | **(270.5)** |

## Note 24
## Property, Plant and Equipment

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

Movements in Balances: 2019/20

| | Council dwellings | 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 2019** | **2,445.0** | **2,385.4** | **162.8** | **660.9** | **63.4** | **172.7** | **200.0** | **6,090.2** | **843.7** |
| Additions | 102.1 | 78.7 | 10.3 | 14.1 | 4.0 | 0.8 | 136.8 | **346.8** | 36.4 |
| Donations | - | - | - | - | - | - | - | **-** | |
| Assets reclassified between categories | 8.3 | 19.1 | 0.1 | 20.8 | 11.9 | 16.5 | (78.2) | **(1.5)** | |
| Assets reclassified (to)/from Held for Sale | - | (3.2) | - | - | - | 5.3 | - | **2.1** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | (38.2) | 29.8 | (6.4) | - | - | (23.8) | - | **(38.6)** | (10.9) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (47.4) | (16.0) | - | - | (0.7) | - | **(64.1)** | (16.0) |
| Derecognition - Disposals | (35.9) | (125.4) | (21.6) | - | - | - | - | **(182.9)** | (0.6) |
| **At 31 March 2020** | **2,481.3** | **2,337.0** | **129.2** | **695.8** | **79.3** | **170.8** | **258.6** | **6,152.0** | **852.6** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2019** | **-** | **(28.9)** | **(70.6)** | **(189.4)** | **-** | **-** | **-** | **(288.9)** | **(201.6)** |
| Depreciation charge | (53.8) | (53.3) | (15.0) | (25.3) | - | (0.4) | - | **(147.8)** | (31.7) |
| Depreciation written out to the Revaluation Reserve | 53.1 | 39.1 | 3.4 | - | - | 2.4 | - | **98.0** | 9.3 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 12.1 | 8.6 | - | - | 0.4 | - | **21.1** | 8.7 |
| Revaluation (losses)/reversals recognised in the Revaluation Reserve | - | - | - | - | - | - | - | **-** | |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | |
| Derecognition - Disposals | 0.7 | 2.6 | 22.4 | - | - | - | - | **25.7** | - |
| Assets reclassified (to)/from Held for Sale | - | 0.7 | - | - | - | (0.2) | - | **0.5** | |
| Other movements in depreciation and impairment | - | 2.2 | - | - | - | (2.2) | - | **-** | |
| **At 31 March 2020** | **-** | **(25.5)** | **(51.2)** | **(214.7)** | **-** | **-** | **-** | **(291.4)** | **(215.3)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2020** | **2,481.3** | **2,311.5** | **78.0** | **481.1** | **79.3** | **170.8** | **258.6** | **5,860.6** | **637.3** |
| **At 31 March 2019** | **2,445.0** | **2,356.5** | **92.2** | **471.5** | **63.4** | **172.7** | **200.0** | **5,801.3** | **642.1** |

## Movements in Balances: 2018/19

| | Council dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | Total Property, Plant and Equipment £m | PFI / Service Concession assets Included in Property, Plant and Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2018** | **2,283.8** | **2,472.6** | **176.5** | **629.6** | **62.2** | **112.2** | **196.7** | **5,933.6** | **811.9** |
| Adjustment to Opening Balance | - | (27.6) | - | - | - | - | - | **(27.6)** | - |
| **Restated Opening Balance at 1 April 2018** | **2,283.8** | **2,445.0** | **176.5** | **629.6** | **62.2** | **112.2** | **196.7** | **5,906.0** | **811.9** |
| Additions | 102.8 | 51.9 | 4.8 | 30.0 | 2.3 | - | 100.3 | **292.1** | 32.6 |
| Donations | - | - | - | - | - | - | - | **-** | |
| Assets reclassified between categories | 16.7 | 76.6 | 1.1 | 1.3 | (1.1) | 1.4 | (96.8) | **(0.8)** | |
| Assets reclassified (to)/from Held for Sale | - | (11.9) | - | - | - | (12.2) | - | **(24.1)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | 76.5 | (12.7) | - | - | - | 73.3 | - | **137.1** | (0.9) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (110.2) | - | - | - | - | (0.2) | **(110.4)** | 0.4 |
| Derecognition - Disposals | (34.8) | (53.3) | (19.6) | - | - | (2.0) | - | **(109.7)** | (0.3) |
| **At 31 March 2019** | **2,445.0** | **2,385.4** | **162.8** | **660.9** | **63.4** | **172.7** | **200.0** | **6,090.2** | **843.7** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2018** | **-** | **(28.1)** | **(73.7)** | **(111.9)** | **-** | **-** | **-** | **(213.7)** | **(121.1)** |
| Depreciation charge | (51.7) | (59.8) | (16.0) | (26.2) | - | (0.6) | - | **(154.3)** | (32.4) |
| Depreciation written out to the Revaluation Reserve | 51.0 | 41.5 | - | - | - | 0.1 | - | **92.6** | 2.2 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 13.2 | - | - | - | - | - | **13.2** | 0.9 |
| Revaluation (losses)/reversals recognised in the Revaluation Reserve | - | 0.8 | - | - | - | - | - | **0.8** | |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | - | 0.8 | - | (51.3) | - | - | - | **(50.5)** | (51.3) |
| Derecognition - Disposals | 0.7 | 2.2 | 19.1 | - | - | 0.1 | - | **22.1** | 0.1 |
| Assets reclassified (to)/from Held for Sale | - | 0.5 | - | - | - | 0.4 | - | **0.9** | |
| Other movements in depreciation and impairment | - | - | - | - | - | - | - | **-** | |
| **At 31 March 2019** | **-** | **(28.9)** | **(70.6)** | **(189.4)** | **-** | **-** | **-** | **(288.9)** | **(201.6)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2019** | **2,445.0** | **2,356.5** | **92.2** | **471.5** | **63.4** | **172.7** | **200.0** | **5,801.3** | **642.1** |
| **At 31 March 2018** | **2,283.8** | **2,444.5** | **102.8** | **517.7** | **62.2** | **112.2** | **196.7** | **5,719.9** | **690.8** |

**Revaluations**

The outbreak of Covid-19, declared as a Global Pandemic on 11 March 2020, has had significant impact on global financial markets post March 2020. The valuation has considered material uncertainty as a matter of course and, whilst there will be a significant impact on the real estate market during 2020/21, it is difficult to determine the impact of the virus on asset values at 31 March 2020. At the valuation date there was a shortage of market evidence for comparison purposes, leading to the need for a greater degree of caution to be applied to the valuation than would normally be the case.

Operational Land and Buildings (other than Housing)
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 13 August 2020 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The effective date of the current year's valuation was 1 April 2019, with a review of any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a marginal reduction in building costs during the year to 31 March 2020.

A review was undertaken to assess the impact of the movement in building costs on the value of those assets not subject to revaluation in 2019/20. As a result, a desktop exercise was undertaken to update those values in the Balance Sheet, reflecting a more up to date value as at 31 March 2020, resulting in a small increase in relevant asset values.

Housing
The Council's housing stock was valued as at 10 January 2020 by Azmat Mir MRICS, and similarly qualified staff within the Council's Property Services section in line with the Ministry of Housing, Communities and Local Government's Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value – Social Housing basis, which takes open market value for the underlying dwellings and applies a multiplier to reflect the reduced value as a result of the use for social housing for 2019/20 of 40% (2018/19: 40%). A review was undertaken to consider any material movement between 10 January and 31 March 2020, but no increase in value has been applied due to the uncertainty of global markets as a result of the Covid-19 pandemic.

HRA dwellings have seen a net increase in value of £36.3m since 31 March 2019. Details are included in Notes H1 and H3 of the Supplementary Statements.

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2020 at fair value, assessing the assets in their highest and best use, using Level 2 inputs.

| Recurring Fair Value Measurements | Input Level in Fair Value Hierarchy | Valuation technique used to measure Fair Value | 31 March 2019 Fair Value £m | 31 March 2020 Fair Value £m |
|---|---|---|---|---|
| Highest and Best Use | Level 2 | The fair value of surplus properties has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Property Portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as Level 2 on the fair value hierarchy. | 172.7 | 170.8 |

An analysis of the valuations, by class of asset, broken down by the basis and date of formal valuation is set out on the following table.

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | **Total Property, Plant and Equipment** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | **£m** |
| Carried at Historical Cost | | | | | 79.3 | | 258.6 | **337.9** |
| Carried at Depreciated Historical Cost | | | 101.2 | 695.8 | | | | **797.0** |
| Valued at current value as at: | | | | | | | | |
| 31 March 2020 | 2,481.3 | 1,884.3 | 28.0 | | | 170.8 | | **4,564.4** |
| 31 March 2019 | | 104.5 | | | | | | **104.5** |
| 31 March 2018 | | 78.2 | | | | | | **78.2** |
| 31 March 2017 | | 161.1 | | | | | | **161.1** |
| 31 March 2016 | | 108.9 | | | | | | **108.9** |
| **Total cost or valuation** | **2,481.3** | **2,337.0** | **129.2** | **695.8** | **79.3** | **170.8** | **258.6** | **6,152.0** |

## Capital Commitments

At 31 March 2020, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 and future years budgeted to cost £1,018.3m. Similar contracts at 31 March 2019 were £1,009.4m. The major commitments are:

| | £m |
|---|---|
| PFI Lifecycle Costs | 522.5 |
| Commonwealth Games | 299.0 |
| HRA New Build & Investment | 86.7 |
| Paradise Circus Enterprise Zone | 43.0 |
| Additional School Places | 27.2 |
| Works to Tyseley Energy Renewal Plant | 18.5 |
| Iron Lane Highway Improvements | 6.0 |
| Snow Hill Public Realm | 7.1 |
| Other Projects <£5m | 8.3 |
| **Total Capital Commitments** | **1,018.3** |

## Capitalisation of Borrowing Costs

The Council has adopted an accounting policy, detailed in Note1 - section xi., of capitalising borrowing costs in relation to qualifying assets. In 2019/20 the amount of borrowing costs capitalised during the period was £4.0m (2018/19: £3.0m). The interest does not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.45% in 2019/20 (2018/19: 4.36%). For 2019/20, interest capitalised by scheme was as follows:

| | £m |
|---|---|
| Enterprise Zone | 3.3 |
| Commonwealth Games | 0.7 |

## Note 25
## Heritage Assets

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

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

Heritage Assets held by the Council:

| | **Museum Collections** | **Historic Buildings** | **Public Art** | **Libraries and Archive collections** | **Civic Regalia and Plate** | **Total Assets** |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **01 April 2018** | | | | | | |
| - At Cost | 3.9 | 11.1 | 0.5 | - | - | 15.5 |
| - At Valuation | 215.9 | - | - | 18.4 | 1.8 | 236.1 |
| Additions | 0.1 | - | - | - | - | 0.1 |
| Impairment losses /(reversals) recognised in the Revaluation Reserve | 0.3 | - | - | - | - | 0.3 |
| Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services | (2.2) | - | - | - | - | (2.2) |
| **31 March 2019** | **218.0** | **11.1** | **0.5** | **18.4** | **1.8** | **249.8** |
| *- At Cost* | *1.8* | *11.1* | *0.5* | *-* | | *13.4* |
| *- At Valuation* | *216.2* | *-* | *-* | *18.4* | *1.8* | *236.4* |
| **31 March 2019** | ***218.0*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.8*** |
| | | | | | | |
| **01 April 2019** | | | | | | |
| - At Cost | 1.8 | 11.1 | 0.5 | - | - | 13.4 |
| - At Valuation | 216.2 | - | - | 18.4 | 1.8 | 236.4 |
| Additions | 0.2 | - | - | - | - | 0.2 |
| Revaluations | 0.1 | - | - | - | - | 0.1 |
| Impairment losses /(reversals) recognised in the Surplus or Deficit on the Provision of Services | (0.2) | - | - | - | - | (0.2) |
| **31 March 2020** | **218.1** | **11.1** | **0.5** | **18.4** | **1.8** | **249.9** |
| *- At Cost* | *1.8* | *11.1* | *0.5* | *-* | | *13.4* |
| *- At Valuation* | *216.3* | *-* | *-* | *18.4* | *1.8* | *236.5* |
| **31 March 2020** | ***218.1*** | ***11.1*** | ***0.5*** | ***18.4*** | ***1.8*** | ***249.9*** |

**Museum Collections**

The Council holds collections of artworks, ceramics, jewellery and items of archaeological and scientific significance. The vast majority of the Museum's Loan collection is held within the Birmingham Museum and Art Gallery, which holds one of the finest collections of art, history and science in the UK and the best collection of Pre-Raphaelite works in the world. There are significant exhibits and artwork comprising the Permanent Collection on display in community museums, for example Aston Hall and Soho House, together with items held in storage at the Museum's Collection Centre. The value of the collection has been adjusted to reflect updated insurance valuations. In addition, there is a collection of Boulton silverware, a set of 24 pieces in silver jointly owned by the Council and the Birmingham Assay Office.

**Historic Buildings and the Historical Environment**

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

**Public Art**

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

**Libraries and Archive Collections**

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

**Civic Regalia and Plate**

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

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

Access to heritage assets is provided through permanent displays of historical material, temporary exhibitions and events, publications, catalogues and digital and web-based resources. In addition the Museum's Collection Centre schedules occasional open days allowing public access to some of the Museum's stored historical artefacts. For the wider historical environment guided tours, printed leaflets and publications, heritage trails and interpretive panels are effective in enabling intellectual access.

Birmingham Museums Trust exists to promote heritage within Birmingham, with the aims of advancing education through the operation, maintenance, development and promotion of museums, galleries and libraries in Birmingham. The Council continues to retain ownership of the buildings and collections.
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**Note 26**
**Intangible Assets**

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant, Furniture and Equipment.

The carrying amount of intangible assets is amortised on a straight-line basis over a five year period, which is deemed to be the period that intangible assets are expected to be of use to the Council.

The movement on intangible asset balances during the year is as follows:

| | 2018/19 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | Internally Generated Assets £m | Other Assets £m | Total £m | Internally Generated Assets £m | Other Assets £m | Total £m |
| Balance at start of year: | | | | | | |
| - Gross carrying amounts | - | 41.4 | 41.4 | - | 42.1 | 42.1 |
| - Accumulated amortisation | - | (27.7) | (27.7) | - | (34.7) | (34.7) |
| **Net carrying amount at start of year** | **-** | **13.7** | **13.7** | **-** | **7.4** | **7.4** |
| Additions: | | | | | | |
| - Internal development | - | 1.1 | 1.1 | - | 1.4 | 1.4 |
| Assets reclassified between asset categories | - | 0.8 | 0.8 | - | 1.5 | 1.5 |
| Other disposals | - | (1.2) | (1.2) | - | (31.8) | (31.8) |
| Amortisation for the period | - | (8.2) | (8.2) | - | (3.2) | (3.2) |
| Amortisation written out for disposals/transfers | - | 1.2 | 1.2 | - | 31.8 | 31.8 |
| Net carrying amount at end of year | - | 7.4 | 7.4 | - | 7.1 | 7.1 |
| | | | | | | |
| Comprising: | | | | | | |
| Gross carrying amounts | - | 42.1 | 42.1 | - | 13.2 | 13.2 |
| Accumulated amortisation | - | (34.7) | (34.7) | - | (6.1) | (6.1) |
| | - | 7.4 | 7.4 | - | 7.1 | 7.1 |

## Note 27
## Long Term Debtors

The table below shows amounts owed to the Council that are due for payment more than 12 months after the Balance Sheet date. Covid-19 has had a significant impact on the economy, the extent of which may not be known for some time. An estimate has been made on the collectability of outstanding debt and a further explanation is set out in Note 4, Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty The outstanding balances have been split by type of debt.

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 83.8 | External Loans | 88.3 |
| 0.7 | Employee Loans | 0.2 |
| 0.3 | Mortgages: former Council House Tenants | 0.3 |
| 30.6 | Other Debtors | 25.7 |
| **115.4** | **Total** | **114.5** |

## Note 28
## Short Term Investments

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below. Whilst the impact of Covid-19 is likely to have a significant impact on the economy, it is not expected that there would be a significant impact on short term investments.

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 56.3 | Money Market Funds | 22.5 |
| 3.2 | Financial Institutions | 1.8 |
| 10.1 | Other Investments | 204.0 |
| **69.6** | **Total** | **228.3** |

## Note 29
## Assets Held for Sale

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through their continuing use.

| | Current | |
|---|---|---|
| | 2018/19 | 2019/20 |
| | £m | £m |
| **Balance outstanding at start of year** | **0.9** | **23.4** |
| Assets newly classified as held for sale: | | |
| - Property, Plant and Equipment | 23.3 | 9.4 |
| Assets declassified as held for sale: | | |
| - Property, plant and equipment | - | (12.2) |
| Assets sold | (0.7) | (4.1) |
| Other Movements | (0.1) | 0.2 |
| **Balance outstanding at year end** | **23.4** | **16.7** |

At 31 March 2020, 12 assets have been classified as held for sale. In the normal course of business, it would be expected that disposal of those assets would take place in the following 12 months. However, the Covid-19 pandemic has had a significant impact on the UK's commercial and economic activity since lockdown began in March 2020, creating a degree of uncertainty around future asset disposals, the scale of which is as yet unknown.

Assets carried within the Council's financial statements are valued using either Depreciated Replacement Cost (DRC) in the case of specialist assets or the value to the Council of the asset in existing use. The value of capital receipts may differ from the carrying value of the assets and is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate. The potential difference in values cannot be quantified as those assets which may be disposed of may change and a 'fair' market valuation cannot be quantified with any accuracy. Given the size of the assets on the Council's Balance Sheet the sale of a small percentage of these could still result in a material difference.

In addition, there are eight assets that have been reclassified to either surplus or to land and buildings assets as they no longer fulfil the criteria to be deemed as assets held for sale.

## Note 30
## Short Term Debtors

The table below shows the amounts owed to the Council at the end of the year that are due for payment within 12 months. An allowance has been made, within the overall level of debt due, to reflect an element of non-recovery. Whilst the allowance for non-recovery has included an additional element to reflect the impact of Covid-19 on the economy, the full impact may not be known for some time.

The amounts owed have been analysed by type of debtor to allow an assessment of the risk of non-recovery.

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 68.6 | Central government bodies | 110.2 |
| 21.2 | Other local authorities | 29.3 |
| 8.3 | NHS bodies | 7.4 |
| 2.5 | Public corporations and trading funds | 3.5 |
| 230.0 | Other entities and individuals | 234.5 |
| **330.6** | **Total** | **384.9** |

**Note 31**
**Cash and Cash Equivalents**

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

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 3.1 | Cash held by the Council | 2.8 |
| 43.1 | Bank current accounts | 59.2 |
| (15.2) | Bank Overdrafts | (0.7) |
| **31.0** | **Total** | **61.3** |

**Note 32**
**Short Term Creditors**

The table below shows amounts owed by the Council at the end of the year that are due for payment within 12 months. The amounts due have been analysed by type of creditor.

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| (26.2) | Central government bodies | (83.5) |
| (6.7) | Other local authorities | (7.2) |
| (1.3) | NHS bodies | (3.5) |
| (64.1) | Public corporations and trading funds | (50.5) |
| (197.5) | Other entities and individuals | (236.1) |
| **(295.8)** | **Total** | **(380.8)** |

## Note 33
## Provisions

The following table shows the value of the Council's liabilities that will probably result in a transfer of economic benefits in line with the Accounting Policy for Provisions.

| **Balance at 1 April 2018** | | **Balance at 1 April 2019** | Additional provisions made in 2019/20 | Amounts used in 2019/20 | Transfer between current and non-current provision | Unused amounts reversed in 2019/20 | Unwinding of discounting in 2019/20 | **Balance at 31 March 2020** |
|---|---|---|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m | £m | £m | £m |
| | **Short Term** | | | | | | | |
| 151.8 | Equal Pay | 174.5 | - | (19.4) | - | (2.0) | 0.1 | **153.2** |
| 22.8 | Business Rates Appeals | 13.7 | 9.8 | (12.1) | - | - | - | **11.4** |
| 1.6 | Pension Guarantees | 1.4 | 0.4 | (1.4) | 0.9 | - | - | **1.3** |
| 11.9 | Other Provisions | 15.8 | 0.9 | (2.5) | - | (5.0) | (0.1) | **9.1** |
| **188.1** | **Total** | **205.4** | **11.1** | **(35.4)** | **0.9** | **(7.0)** | **-** | **175.0** |
| | **Long Term** | | | | | | | |
| 12.3 | Business Rates Appeals | 7.4 | 5.3 | (6.5) | - | - | - | **6.2** |
| 11.2 | Pension Guarantees | 8.5 | 0.4 | - | (0.9) | (0.4) | - | **7.6** |
| **23.5** | **Total** | **15.9** | **5.7** | **(6.5)** | **(0.9)** | **(0.4)** | **-** | **13.8** |

Equal Pay

The Equal Pay Act 1970 was enacted at a time when it was not uncommon for employers to openly give different rates of pay to men and women performing the same job, or to reserve certain jobs for men and other (lower-paid) jobs for women. The Equality Act 2010 repealed and replaced the Equal Pay Act 1970 from 1 October 2010 and implemented in Great Britain the principle that men and women should receive equal pay for equal work.

The Council has received a number of valid equal pay claims and, as a result, has set aside a provision of £153.2m (2018/19: £174.5m) in respect of outstanding claims as at 28 February 2020. The provision will be subject to review during the period of the audit. Furthermore, a significant proportion of claims remain to be settled or challenged.

The Secretary of State for Communities and Local Government issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims. The Council has included both the capital and revenue impacts of equal pay claims in the Council's Financial Plan 2020 - 2024.

Business Rates Appeals

As a result of the change in the funding of Local Government in 2013/14, local authorities have assumed part of the liability for refunding Business Rates payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1st April 2017 the Council is part of a 100% Local Business Rates Retention Pilot. Under the pilot the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government. Under the pilot the Council has assumed responsibility to pay for 99% of backdated appeals, even those prior to 1 April 2017. However, the Council has also been allowed to take the Government's 50% share of the provision set aside for backdated appeals prior to 1 April 2017.

These accounts include a provision of £17.6m representing 99% of the total provision (2018/19: £21.1m representing 99% of the total provision) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2020. The remaining 1% share of the liability is attributable to the WMFRA.

The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

Pensions Guarantees

The Council has, over a number of years, changed its way of operating from being one of a direct provider of a number of services to one where it purchases services from third parties. As part of this change in service delivery model, the Council has transferred staff from the Council to external providers under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The Council has agreed that staff transferring to an external provider should continue to have the right to access equivalent pension benefits to that provided whilst employed by the Council. To ensure the smooth transfer of staff, the Council has provided guarantees for contribution rates and pension deficits in respect of continuing pension provision. As a result of the guarantees given, the Council has set aside a provision of £8.9m (2018/19: £9.9m) to meet future liabilities under these arrangements.

Other Provisions

Details of the major items included in other provisions are:

Subsidiaries

As part of the relationship with its subsidiary companies, the Council may have to provide a guarantee that it will support a company to enable it to continue meeting its liabilities as they fall due. The Council continues to review the likelihood of any call on the guarantees that it has given to determine whether it needs to set aside resources to meet any future liabilities. The Council has set aside a provision of £4.1m in 2019/20 (2018/19: £8.7m).

Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain.

Sleep-In Allowance

The Council, like other care providers/commissioners, has a risk of potential back pay liability as a result of developments in the legal system in relation to sleep-in shifts. The Mencap vs Tomlinson-Blake EAT ruling found that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than the fixed allowance that is currently paid. The current case law is complex, and currently subject to appeal.

**Note 34**
**Contingent Liabilities and Contingent Assets**

Contingent Liabilities
These relate to pending legal or contractual claims not included in the accounts and guarantees given by the Council for repayment of loans taken out by certain associated companies. The Council currently has the following contingent liabilities:

1. The Council has an on-going accountable body role for a range of grant funding regimes, both historical and current, which include supporting programmes and projects under its direct control as well as managing programmes involving wider partnerships with external organisations.

   Direct
   For arrangements managed under its control, the accountable body function covers projects and programmes where the Council accesses European or Domestic grant support either for itself or on behalf of another organisation. In accepting this role the Council underwrites the financial performance and delivery of the activity along with compliance with the funding regulations. Under this role there is, depending on the nature of the particular scheme, a potential liability to the Council arising from either non-delivery of outputs, claiming of ineligible expenditure or from the disposal of assets prior to any clawback liability expiring. The Council has quantified this potential liability at 31 March 2020 as £443.1m and has identified future commitments of £20.3m.

   Partnerships
   Where the Council has accepted the accountable body role for grant funding, which involves a wider partnership arrangement and management of the fund, for example Local Enterprise Partnership (LEP) or the Regional Growth Fund (RGF), the Council's grant liability exists if it is deemed that it has been "unreasonable" in discharging its responsibilities. The Council has quantified this potential liability at 31 March 2020 as £653.0m and has identified future expenditure commitments of £712.3m.

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

2. The Council's final Housing Benefit claim for 2019/20 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and reduce the General Fund balance carried forward.

3. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £153.2m (31 March 2019: £174.5m) which incorporates all claims received and negotiations agreed by 31 March 2020.

   Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in the Financial Plan 2020 – 2024 which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated between 1 April 2013 and 31 March 2020 to meet the costs of equal pay.

4. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.

5. The Council uses a number of different arrangements in the delivery of services in addition to the services it provides itself. Alternative methods of service delivery may include the use of subsidiary companies where the Council has majority control or partnership arrangements with third parties through associate companies and joint ventures where the Council has joint control or a significant influence. To ensure continuity of service delivery, the Council may provide guarantees or letters of assurance to these companies so that they can give assurance to third party suppliers that they can continue to meet their liabilities as they fall due. The Council has set aside a provision of £4.1m in 2019/20 in recognition of its current commitments under these arrangements. The trading position of companies may change and the Council may be required to provide for further support in the future.

6. The Council enters into a number of arrangements with external partners for the delivery of services or as part of infrastructure developments within the city. There are occasions where the Council faces claims from external partners where it is believed that specific outcomes have not been delivered. Currently the validity of any outstanding claims is being assessed.

7. The Council received insurance services from Municipal Mutual Insurance (MMI). Due to financial difficulties, MMI ceased trading in October 1993 and entered into a solvent run off. MMI entered into a Scheme of Arrangement with its creditors, namely the Councils which were owed claim settlements. The Scheme of Arrangement stated that MMI would be able to claw back any claim settlements paid on behalf of its creditors after 1 October 1993 if a solvent run off was not likely to be achieved.

   Following a decision of the Supreme Court in March 2012 regarding Employers' Liability Policy Trigger Litigation, MMI's liability in respect of asbestos related claims has increased substantially. As a result, the Scheme of Arrangement was enacted in 2012/13 and an Administrator was appointed.

   At present, the Administrator has announced a levy of 25% on claims paid since 1 October 1993 and the Council has incurred costs of £0.7m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

8. A number of NHS Trusts across the country submitted applications, under Section 47 of the Local Government Finance Act 1988, to re-classify their Business Rates assessments as charitable and therefore claim mandatory charitable relief, equivalent to an 80% reduction in the amount payable. The NHS Trusts were also seeking repayment of Business Rates paid in previous years. The High Court considered the position and issued its decision on 12 December 2019 that Derby Teaching Hospitals NHS Foundation Trust was not a charity for the purposes of S43(6) of the Local Government Finance Act 1988 which meant that mandatory rate

relief was not appropriate.

It is now understood that eleven hospital trusts are continuing a High Court action against Local Authorities by seeking to appeal the ruling of 12 December 2019. Should the NHS Trust applications be successful there would be a significant impact to the Council, in excess of £10m per annum.

9. In the delivery of services, the Council may transfer staff to external organisations rather than directly deliver those services itself. As part of the staff transfer arrangements, continued access to the Local Government Pension Scheme may still be permitted. Where these arrangements exist, the Council has given guarantees in respect of pension liabilities to the West Midlands Pension Fund and to companies in respect of contribution rates. Where the Council has an expectation that there will be a call on the guarantee, provision has been made as detailed in Note 33. At present the Council has set aside a provision of £9.0m in respect of its guarantees to companies. However, there may be further calls on guarantees which will need to be considered in the future.

10. The Council, as with other care providers/commissioners, has a risk of potential back pay liability as a result of outcomes from Employment Tribunals in relation to sleep-in shifts. In the Employment Appeal Tribunal of Mencap vs Tomlinson-Blake, the judgement was that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than a fixed allowance as is currently the case. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex and is subject to appeal.

Contingent Assets

At 31 March 2020 the Council has identified the following material contingent assets.

1. When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council has included such clauses in the agreement for the disposal of a number of developments and anticipates generating additional capital receipts in future years.

   Due to the commercially sensitive nature of the agreements, detailed information on further anticipated receipts has not been disclosed.

**Note 35**
**Council Borrowing**

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

| 2018/19 Long Term £m | 2018/19 Short Term £m | | 2019/20 Long Term £m | 2019/20 Short Term £m |
|---|---|---|---|---|
| (60.4) | (42.6) | Lender's Option Borrower's Option (LOBO) loans | (30.4) | (42.1) |
| (476.3) | (7.6) | Local Bonds | (469.6) | (7.9) |
| (2,311.0) | (66.3) | Public Works Loan Board | (2,454.1) | (61.5) |
| (7.8) | (466.6) | Other Borrowing (mainly Other Local Authorities) | (17.4) | (293.0) |
| **(2,855.5)** | **(583.1)** | **Total** | **(2,971.5)** | **(404.5)** |

**Note 36**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the following items:

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (21.6) | Interest received | (31.4) |
| 182.0 | Interest paid | 196.0 |
| (5.7) | Dividends received | (5.4) |
| **154.7** | | **159.2** |

**Note 37**
**Cash Flow Statement - Investing Activities**

The cash flows from investing activities include the following:

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (261.9) | Purchase of property, plant and equipment, investment property and intangible assets | (334.9) |
| (1,115.9) | Purchase of short-term and long-term investments | (2,087.2) |
| 87.4 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 71.9 |
| 1,152.8 | Proceeds from short-term and long-term investments | 1,923.1 |
| **(137.6)** | **Net cash flows from investing activities** | **(427.1)** |

## Note 38
## Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 126.5 | Other receipts from financing activities | 225.9 |
| 2,171.8 | Cash receipts of short-term and long-term borrowing | 1,851.2 |
| (47.3) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (23.0) |
| (2,272.6) | Repayments of short-term and long-term borrowing | (1,905.7) |
| (4.9) | Other payments for financing activities | 1.5 |
| **(26.5)** | **Net cash flows from financing activities** | **149.9** |

Details of the reconciliation of liabilities arising from financing activities is set out below.

| | 01 April 2019 | Financing Cash Flows | Non-Cash Changes | | 31 March 2020 |
|---|---|---|---|---|---|
| | | | Acquisition | Other Non-Cash Changes | |
| | £ | £ | £ | £ | £ |
| Long-Term Borrowings | 2,855.5 | 116.0 | | | 2,971.5 |
| Short-Term Borrowings | 583.1 | (178.6) | | | 404.5 |
| Lease liabilities | 1.7 | (0.4) | 1.6 | | 2.9 |
| On Balance Sheet PFI Liabilities | 404.3 | (23.0) | 11.1 | | 392.4 |
| **Total Liabilities from Financing Activities** | **3,844.6** | **(86.0)** | **12.7** | **-** | **3,771.3** |

| | 01 April 2018 | Financing Cash Flows | Non-Cash Changes | | 31 March 2019 |
|---|---|---|---|---|---|
| | | | Acquisition | Other Non-Cash Changes | |
| | £ | £ | £ | £ | £ |
| Long-Term Borrowings | 2,740.0 | 115.5 | | | 2,855.5 |
| Short-Term Borrowings | 799.8 | (216.4) | | (0.3) | 583.1 |
| Lease liabilities | 2.2 | (1.1) | 0.6 | - | 1.7 |
| On Balance Sheet PFI Liabilities | 421.8 | (47.3) | 29.8 | - | 404.3 |
| **Total Liabilities from Financing Activities** | **3,963.8** | **(149.3)** | **30.4** | **(0.3)** | **3,844.6** |

**Note 39**
**Cash Flow Statement – Other Adjustments**

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 154.3 | Depreciation/Impairment charge | 147.9 |
| 8.2 | Amortisation of Intangible Assets | 3.2 |
| 0.5 | Derecognition of Available for Sale Assets | 3.9 |
| 148.4 | Revaluation of Non-Current Assets | 42.7 |
| 88.3 | Derecognition of Non-Current Assets | 161.4 |
| (24.3) | (Increase)/Decrease in Debtors | (48.0) |
| (39.1) | Increase/(Decrease) in Creditors | 68.2 |
| (0.1) | (Increase)/Decrease in Inventories | (0.4) |
| 9.7 | Increase/(Decrease) in Provisions | (32.5) |
| 151.5 | Pensions Liability | 176.9 |
| **497.4** | **Net Cash Flow - Other Adjustments** | **523.3** |

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (126.5) | Capital Grants | (225.9) |
| (87.4) | Capital Receipts | (71.9) |
| 4.9 | Council Tax and Business Rates Adjustments | (1.4) |
| **(209.0)** | | **(299.2)** |

**Note 40**
**Financial Instruments**

## Categories of Financial Instruments

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

| | Long Term | | Short Term | |
|---|---|---|---|---|
| | 31 March 2019 £m | 31 March 2020 £m | 31 March 2019 £m | 31 March 2020 £m |
| **Investments** | | | | |
| Fair Value through Profit or Loss | 3.9 | 3.1 | 56.3 | - |
| Amortised Cost | - | - | 13.3 | 228.3 |
| Fair Value through Other Comprehensive Income - designated equity instruments | - | - | - | - |
| Investments in subsidiaries, associates and joint ventures | 37.3 | 34.2 | - | - |
| **Total** | **41.2** | **37.3** | **69.6** | **228.3** |
| *Investments that are not financial instruments* | - | - | - | - |
| **Total investments** | **41.2** | **37.3** | **69.6** | **228.3** |
| **Debtors** | | | | |
| Fair Value through Profit or Loss | - | - | - | - |
| Fair Value at Amortised Cost | 88.8 | 90.4 | 216.5 | 262.9 |
| Fair Value through Other Comprehensive Income - designated equity instruments | - | - | - | - |
| Financial assets carried at contract amounts | - | - | - | - |
| **Total** | **88.8** | **90.4** | **216.5** | **262.9** |
| *Debtors that are not financial instruments* | 26.6 | 24.1 | 114.1 | 122.0 |
| **Total debtors** | **115.4** | **114.5** | **330.6** | **384.9** |
| **Cash** | | | | |
| Cash in Hand | | | 46.2 | 62.0 |
| **Total cash: asset** | | | 46.2 | 62.0 |
| Cash Overdrawn | | | (15.2) | (0.7) |
| **Total cash: liability** | | | (15.2) | (0.7) |
| **Borrowings** | | | | |
| Fair Value through Profit or Loss | - | - | - | - |
| Fair Value at Amortised Cost | (2,855.5) | (2,971.5) | (583.1) | (404.5) |
| **Total** | (2,855.5) | (2,971.5) | (583.1) | (404.5) |
| *Borrowings that are not financial instruments* | - | - | - | - |
| **Total borrowings** | **(2,855.5)** | **(2,971.5)** | **(583.1)** | **(404.5)** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | (393.4) | (382.2) | | |
| **Total** | (393.4) | (382.2) | | |
| *Transferred Debt and Other Liabilities* | (51.0) | (45.7) | | |
| **Total long term liabilities** | **(444.4)** | **(427.9)** | | |
| **Creditors** | | | | |
| Fair Value through Profit or Loss | - | - | - | - |
| Fair Value at Amortised Cost | (2.3) | (0.7) | (217.7) | (243.6) |
| **Total** | (2.3) | (0.7) | (217.7) | (243.6) |
| *Creditors that are not financial instruments* | - | - | (78.1) | (137.2) |
| **Total creditors** | **(2.3)** | **(0.7)** | **(295.8)** | **(380.8)** |

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.5m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2016/17, Warwickshire County Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

West Midlands Growth Company (formerly Marketing Birmingham) received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.3m, pays an interest rate of 2.2% and matures in 2022.

On the creation of Birmingham Children's Trust CIC was offered loan facilities to ensure that it had sufficient cash resources to operate efficiently given that the company was a company limited by guarantee and had no equity. The Council took up a loan of £4m in April 2018 at an interest rate of 2.41% and a loan of £6m in April 2019 at an interest rate of 1.87%. The loans are due to be repaid as a single repayment in March 2028 but the Trust has the right to repay at an earlier date. The loan is deemed to be a material soft loan and is carried in the accounts at £7.5m

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

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| **Opening balance at 1 April** | **17.9** | **17.7** |
| Adjustment to Opening Balance | (0.5) | - |
| Nominal value of new loans | | 10.0 |
| Fair value adjustment of new loan | | (2.5) |
| Loans repaid | (0.1) | - |
| Movement in Expected Credit Loss per IFRS9 | 0.1 | 0.1 |
| (Increase)/Reduction in discount | 0.3 | - |
| **Closing Balance at 31 March** | **17.7** | **25.3** |
| Nominal value at 31 March | 22.2 | 32.2 |

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

The Opening Balance Adjustment on the loans in 2018/19 relates to the implementation of IFRS9, Financial Instruments, and the requirement to determine Expected Credit Losses on financial assets. The net Expected Credit Losses estimate has reduced during the year as the date for repayment of the loan facilities is now one year closer.

As with all loans made by the Council, reviews of the repayment schedule is undertaken with the borrowing counterparties, particularly in the light of the impact of Covid-19 to determine whether the level of risk has increased sufficiently to make any changes to the assessment the carrying value of the loans.

Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table. The losses on financial instruments recognise that some debts will not be recovered and includes an allowance for an increase as a result of the difficulties arising from the spread of Covid-19.

| | 2018/19 | | 2019/20 | |
|---|---|---|---|---|
| | Surplus/Deficit on the Provision of Services | Other Comprehensive Income and Expenditure | Surplus/Deficit on the Provision of Services | Other Comprehensive Income and Expenditure |
| | £m | £m | £m | £m |
| **Net (Gains)/Losses on financial instruments:** | | | | |
| • financial assets measured at fair value through profit/loss | 2.7 | - | 4.1 | - |
| • financial assets measured at amortised costs | 17.1 | - | 24.6 | - |
| **Total Net (Gains)/Losses on financial instruments** | **19.8** | **-** | **28.7** | **-** |
| **Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | | | | |
| Interest Receivable from financial assets measured at amortised costs | (21.6) | - | (31.4) | - |
| Investment income from financial assets measured through profit and loss | (5.7) | - | (5.4) | - |
| Interest Expense | 182.0 | - | 196.0 | - |
| **Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services** | 154.7 | - | 159.2 | - |
| **Net (gain)/loss for the year** | **174.5** | **-** | **204.7** | **-** |

Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

| Financial Liabilities | Input level in Fair Value Hierarchy | Valuation inputs and assumptions used to measure Fair Value | 31 March 2019 | | 31 March 2020 | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| Bonds | Level 1 | Quoted prices (unadjusted) in active markets for identical assets | 84.5 | 103.1 | 86.0 | 104.7 |
| Public Works Loan Board (PWLB) | Level 2 | PWLB new loan at certainty rate based on published PWLB rates | 2,377.2 | 3,130.7 | 2,515.6 | 3,408.4 |
| Bonds | | An estimate of the rate payable for a new loan on the same terms, based on published gilt yields | 399.4 | 507.9 | 391.3 | 510.1 |
| Other Market Loans - LOBOs | | | 102.9 | 190.6 | 72.5 | 129.6 |
| Other Long Term Loans | | | 11.4 | 11.6 | 7.3 | 8.0 |
| Other Long Term Loans - Local Authorities | | Market indicative interest rates | 45.0 | 45.2 | 10.0 | 10.1 |
| Other Long Term Liabilities (PFI/ leasing) | | PWLB new loan at certainty rate based on published PWLB rates | 405.0 | 661.4 | 394.1 | 679.3 |
| Other Long Term Liabilities (Transferred Debt)* | | An estimate of the rate payable for a new loan on the same terms | 39.4 | 45.0 | 34.7 | 38.4 |
| Other Market Loans - Short Term | N/A | Fair value is approximated at their carrying amount | 417.8 | 417.8 | 292.4 | 292.4 |
| Short term creditors (including PFI/finance leases/operating lease/transferred debt) | N/A | Fair value is approximated at their carrying amount | 217.7 | 217.7 | 243.6 | 243.6 |
| **TOTAL** | | | **4,100.3** | **5,331.0** | **4,047.5** | **5,424.6** |

*The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.

The fair market value of some of the Council's bonds has been set through Bloomberg. These assets are considered to have readily observable prices and therefore a reliable, fair market value.

Details of the impact of fair value assessments on specific categories of assets are set out below.

An assessment of the impact of Covid-19 has been undertaken. Whilst the full impact cannot be fully determined as there may be some consequences that will only become evident in the medium to long term. Additional provision has been set aside in respect of increased expected credit losses for debtors and this will continue to be reviewed during the year as activity begins returning to a more normal way of working.

The Council has reviewed the fair value of its investments, including in its subsidiary companies, to determine whether there should be any impairment in light of changes to their expected levels of trading activity and profitability.

As part of the Highways PFI settlement arrangements with Birmingham Highways Limited (BHL), the Council's overpayment claim against BHL was converted into a loan agreement of £64m at an interest rate of 8% per annum. It is expected that the value of the loan will only be recognised towards the end of the Highways PFI contract in June 2035 and will be dependent on the successful restructuring of the project, the continuance of the PFI contract and the successful performance of the contract over the remaining term.

| **Financial Assets** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2019** | | **31 March 2020** | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| Fair value through profit and loss assets | Level 2 | With significant unobservable inputs | 4.0 | 4.0 | 3.9 | 3.9 |
| Long term debtors (Loans and receivables) | Level 2 | An estimate of the rate payable for a new loan on the same terms, based on published PWLB rates | 88.8 | 90.9 | 92.9 | 99.9 |
| Investments (Loans and receivables) | N/A | Fair value is approximated at their carrying amount | 56.3 | 56.3 | 226.5 | 226.5 |
| Investments (Loans and receivables) | N/A | Amortised cost | 13.3 | 13.3 | - | - |
| Short term debtors (Loans and receivables) | N/A | Fair value is approximated at their carrying amount | 5.0 | 5.0 | 4.1 | 4.1 |
| Financial assets carried at contract amounts | N/A | Fair value is approximated at their carrying amount | 211.5 | 211.5 | 262.9 | 262.9 |
| **TOTAL** | | | **378.9** | **381.0** | **590.3** | **597.3** |

The fair value of the liabilities and assets at 31 March 2020 is higher than the carrying amount because the Council's portfolio of loans and investments includes fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss on liabilities (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates and a gain on assets (based on economic conditions at 31 March 2020) attributable to the commitment to receive interest below current market rates.

### PWLB Loans

The fair value of Public Works Loan Board (PWLB) loans of £3,408.4m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing borrowing rates from the PWLB.

## Note 41
## Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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 rating indicating lowest level of volatility where applicable) | | £40m |
| Local authorities | n/a | n/a | £25m |
| UK Government and supranational bonds | n/a | n/a | none |
| UK Nationalised Banks and Government controlled agencies | n/a | n/a | £25m |
| Secured investments including repo and covered bonds | Lending limits determined as for banks (above) using the rating of the individual investment | | |

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

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

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

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

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

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

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there was no evidence at 31 March 2020 that this was likely to crystallise.

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

Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loan Board (PWLB) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

| | 31 March 2019<br>£m | 31 March 2020<br>£m |
|---|---|---|
| Less than 1 year | (894.1) | (786.0) |
| Between 1 and 2 years | (63.8) | (72.0) |
| Between 2 and 5 years | (257.2) | (287.8) |
| Between 5 and 20 years | (1,569.1) | (1,630.3) |
| Between 20 and 40 years | (1,232.1) | (1,250.0) |
| Over 40 years | (180.0) | (160.0) |
| **Total** | **(4,196.3)** | **(4,186.1)** |

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

Market Risk

Interest rate risk

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

The Council is exposed to changes in interest rates as a result of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

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

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

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

At 31 March 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £m |
|---|---|
| Increase in interest payable on variable rate borrowings | 4.0 |
| Increase in interest receivable on variable rate investments | (2.5) |
| Impact on Surplus/(Deficit) on the Provision of Services | 1.6 |
| Share of overall impact charged to the HRA | 0.4 |
| Decrease in fair value of fixed rate investment assets | 6.6 |
| Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure) | (526.6) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2020.

Price Risk

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

**Note 42**
**Capital Expenditure and Capital Financing**

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

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| **Opening Capital Financing Requirement** | 4,670.5 | 4,549.1 |
| Capital Investment | | |
| Property, Plant and Equipment | 291.3 | 345.2 |
| Heritage Assets | 0.1 | 0.2 |
| Intangible Assets | 1.9 | 2.9 |
| Revenue Expenditure funded from Capital under Statute | 45.0 | 68.6 |
| Secretary of State Direction - Flexible use of Capital Receipts | 14.5 | 28.2 |
| Capital Grant Repayment | 0.2 | - |
| Long Term Loans | 20.8 | 0.1 |
| Increase in Share Equity | 2.3 | 0.2 |
| Sources of Finance | | |
| Capital Receipts | (57.8) | (61.5) |
| Government Grants and other Contributions | (142.5) | (203.3) |
| Sums set aside from Revenue: | | |
| - Direct Revenue Contributions | (13.5) | (17.0) |
| - Use of Major Repairs Reserve | (55.4) | (54.2) |
| - Revenue Provision for Debt Redemption | (175.2) | (163.4) |
| - Capital Receipts set aside for debt redemption | (53.1) | (1.9) |
| **Closing Capital Financing Requirement** | **4,549.1** | **4,493.2** |
| **Explanation of Movements in Year** | | |
| Movement in underlying need to borrow | (151.8) | (68.4) |
| Assets acquired under finance leases | 0.6 | 1.4 |
| Assets acquired under PFI contracts | 29.8 | 11.1 |
| Increase/(decrease) in Capital Financing Requirement | **(121.4)** | **(55.9)** |
| Movement in Year | **(121.4)** | **(55.9)** |

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

**Note 43**
**Leases**

The Council has a significant number of leases, as summarised below.

**Council as the lessee**

**Finance leases**
The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried in the Balance Sheet at the following net amounts.

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 19.3 | Other Land and Buildings | 26.6 |
| 2.3 | Vehicles, Plant, Furniture & Equipment | 3.3 |
| **21.6** | **Total** | **29.9** |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 0.8 | - current (not later than 1 year) | 1.3 |
| 0.9 | - non-current (later than 1 year) | 1.6 |
| 1.5 | Finance costs payable in future years | 1.9 |
| **3.2** | **Minimum Lease Payments** | **4.8** |

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

| | Minimum lease payments | | Finance lease liabilities | |
|---|---|---|---|---|
| | 31 March 2019 £m | 31 March 2020 £m | 31 March 2019 £m | 31 March 2020 £m |
| Not later than 1 year | 0.9 | 1.4 | 0.8 | 1.3 |
| Later than 1 year and not later than 5 years | 1.0 | 1.5 | 0.8 | 1.4 |
| Later than 5 years | 1.3 | 1.9 | 0.1 | 0.2 |
| **Total** | **3.2** | **4.8** | **1.7** | **2.9** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 contingent rents of £nil were payable (2018/19: £nil).

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

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

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 0.3 | Not later than 1 year | 0.3 |
| 0.5 | Later than 1 year and not later than 5 years | 0.5 |
| 1.2 | Later than 5 years | 1.3 |
| **2.0** | **Total** | **2.1** |

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

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 0.4 | Minimum lease payments | 0.2 |
| - | Contingent rents | 0.1 |
| **0.4** | **Total** | **0.3** |

## Council as the lessor

**Finance leases**
The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.2 | - current (not later than 1 year) | 0.2 |
| 26.7 | - non-current (later than 1 year) | 24.1 |
| 210.4 | Unearned finance income | 204.7 |
| (27.7) | Less – Unguaranteed residual value of property | (28.2) |
| **209.6** | **Gross investment in the lease** | **200.8** |

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

| | Finance Lease debtor | | Minimum Lease payments | |
|---|---|---|---|---|
| | 31 March 2019 | 31 March 2020 | 31 March 2019 | 31 March 2020 |
| | £m | £m | £m | £m |
| Not later than 1 year | 0.2 | 0.2 | 2.0 | 1.8 |
| Later than 1 year and not later than 5 years | 1.8 | 0.1 | 8.4 | 6.3 |
| Later than 5 years | 24.9 | 24.0 | 199.2 | 192.7 |
| **Total** | **26.9** | **24.3** | **209.6** | **200.8** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £1.4m contingent rents were receivable by the Council (2018/19 £1.5m).

**Operating leases**

The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 9.7 | Not later than 1 year | 9.5 |
| 28.1 | Later than 1 year and not later than 5 years | 27.9 |
| 73.8 | Later than 5 years | 66.5 |
| **111.6** | **Total** | **103.9** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20 £2.5m contingent rents were receivable by the Council (2018/19 £2.5m).

**Leases - contingent rent**

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

**Note 44**
**Service Concession Arrangements**

The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiative (PFI), through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. The main contracts cover Schools and Highways Management and Maintenance.

The main terms of the material arrangements are as follows:

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance arrangement. The contract provides for management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the Service Provider. The contract commenced on 7 June 2010, with a contract period of 25 years, and provides for a five year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained.

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

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

However, as the Council had major concerns regarding the fulfilment of the contract, following negotiations, a settlement agreement was reached and a joint statement was issued on behalf of the Council and Amey Plc, confirming that Amey Plc would exit the contract by 31 March 2020. From 1 April 2020, Kier Highways Limited has been appointed as sub-contractor to BHL for a 15 month period during which time a full retendering of the sub-contract is scheduled to take place.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements are based on a continuance of the current contract arrangements.

| Payments remaining as at 31 March 2020 | Interest | Repayment of liability | Payment for services | **Total** |
|---|---|---|---|---|
| | £m | £m | £m | **£m** |
| Payable in 2020/21 | 30.9 | 11.4 | 42.8 | **85.1** |
| Payable within 2 to 5 years | 112.8 | 67.0 | 185.4 | **365.2** |
| Payable within 6 to 10 years | 106.3 | 114.4 | 270.8 | **491.5** |
| Payable within 11 to 15 years | 54.1 | 158.4 | 300.1 | **512.6** |
| Payable within 16 to 20 years | 5.6 | 41.2 | 48.4 | **95.2** |
| **Total** | **309.7** | **392.4** | **847.5** | **1,549.6** |

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| **421.8** | **Liability outstanding at the start of the year** | **404.3** |
| (47.3) | Repayment of liability | (23.0) |
| 29.8 | Lifecycle and further capital expenditure | 11.1 |
| **404.3** | **Liability outstanding at the year end** | **392.4** |

**Note 45**
**Members' Allowances**

Allowances paid to Members of the Council in 2019/20 totalled £2.3m (2018/19: £2.2m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

**Note 46**
**Officers' Remuneration**

The remuneration paid to or receivable by the Council's senior employees is detailed in the table below.

| | | Salary, fees and allowances | Compensation for loss of office | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Professor Graeme Betts, Chief Executive (Acting), Head of Paid Service and Director, Adult Social Care [(1)] | 2018/19 | 162,548 | - | 8,000 | - | 170,548 |
| | 2019/20 | 166,167 | - | - | - | 166,167 |
| Clive Heaphy, Chief Executive (Acting) and Head of Paid Service [(2)] | 2018/19 | 172,548 | - | 429 | - | 172,977 |
| | 2019/20 | 194,229 | 35,206 | 6,229 | - | 235,664 |
| Dawn Baxendale, Chief Executive and Head of Paid Service[(3)] | 2018/19 | 214,200 | - | 4,388 | 35,986 | 254,574 |
| | 2019/20 | 114,528 | - | - | 20,959 | 135,487 |
| Assistant Chief Executive | 2018/19 | 114,368 | - | - | 19,214 | 133,582 |
| | 2019/20 | 116,451 | - | - | 21,311 | 137,762 |
| Interim Chief Finance Officer [(4)] | 2018/19 | - | - | - | - | - |
| | 2019/20 | - | - | - | - | - |
| Acting Director Inclusive Growth [(5)] | 2018/19 | - | - | - | - | - |
| | 2019/20 | 55,266 | - | 315 | 10,114 | 65,695 |
| Director Inclusive Growth [(6)] | 2018/19 | 143,730 | - | - | 24,147 | 167,877 |
| | 2019/20 | 98,131 | - | - | 17,958 | 116,089 |
| Director, Education and Skills[(7)] | 2018/19 | 32,742 | - | - | 5,501 | 38,243 |
| | 2019/20 | 142,800 | - | - | 26,132 | 168,932 |
| Jacqui Kennedy, Director, Place | 2018/19 | 149,054 | - | - | 25,041 | 174,095 |
| | 2019/20 | 152,035 | - | - | 27,822 | 179,857 |
| Acting Director, Neighbourhoods[(8)] | 2018/19 | 105,416 | - | - | 17,710 | 123,126 |
| | 2019/20 | 135,346 | - | - | 24,768 | 160,114 |
| Director of Public Health[(9)] | 2018/19 | 11,515 | - | 940 | 1,935 | 14,390 |
| | 2019/20 | 101,192 | - | 17,434 | 18,518 | 137,144 |
| Director, Human Resources[(10)] | 2018/19 | 73,253 | - | - | 12,307 | 85,560 |
| | 2019/20 | 105,222 | - | - | 19,256 | 124,478 |

| | | Salary, fees and allowances | Compensation for loss of office | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| Director, Digital and Customer Services(11) | 2018/19 | - | - | - | - | - |
| | 2019/20 | 77,250 | - | - | 14,137 | 91,387 |
| Acting Strategic Director, Strategic Services(12) | 2018/19 | 88,818 | - | - | 14,921 | 103,739 |
| | 2019/20 | 28,179 | 87,031 | - | 305,692 | 420,902 |

<u>Notes:</u>

(1) Professor Graeme Betts, Director, Adult Social Care took responsibility for the post of Chief Executive (Acting) and Head of Paid Service on 23 March 2020

(2) Clive Heaphy took up the role as Chief Executive (Acting) and Head of Paid Service on 11 September 2019. Clive left the Council on 31 March 2020

(3) Dawn Baxendale took up the role of Chief Executive and Head of Paid Service on 1 April 2018. Dawn left the Council on 9 October 2019. The expense allowance in 2018/19 relates to relocation expenses incurred.

(4) The Interim Chief Finance Officer and Section 151 Officer took up the role on 2 October 2019 and was employed through a third party, the costs of which were £155,841 in 2019/20.

(5) The Acting Director, Inclusive Growth took up the role on 4 November 2019

(6) The Director, Inclusive Growth left the Council on 1 December 2019

(7) The Director, Education and Skills took up the role on 7 January 2019

(8) The Acting Director, Neighbourhoods took up the role on 15 June 2018

(9) The Director of Public Health took up the role on 18 February 2019. The expense allowances relate to a one-off payment for relocation expenses.

(10) The Director, Human Resources was appointed as a senior officer from 18 July 2018.

(11) The Director, Digital and Customer Services took up the role on 1 July 2019

(12) The Acting Strategic Director, Strategic Services held the post from 31 July 2018 until 30 June 2019.

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

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

| 2018/19 Teaching Staff & Staff in Schools | 2018/19 Other Council Employees | 2018/19 **Total** | Remuneration band | 2019/20 Teaching Staff & Staff in Schools | 2019/20 Other Council Employees | 2019/20 **Total** |
|---|---|---|---|---|---|---|
| No | No | **No** | | No | No | **No** |
| 155 | 163 | **318** | £50,000 - £54,999 | 151 | 166 | **317** |
| 105 | 61 | **166** | £55,000 - £59,999 | 104 | 75 | **179** |
| 61 | 45 | **106** | £60,000 - £64,999 | 78 | 41 | **119** |
| 45 | 18 | **63** | £65,000 - £69,999 | 52 | 22 | **74** |
| 37 | 29 | **66** | £70,000 - £74,999 | 25 | 28 | **53** |
| 16 | 5 | **21** | £75,000 - £79,999 | 23 | 8 | **31** |
| 13 | 11 | **24** | £80,000 - £84,999 | 14 | 8 | **22** |
| 6 | 3 | **9** | £85,000 - £89,999 | 6 | 6 | **12** |
| 4 | 6 | **10** | £90,000 - £94,999 | 6 | 4 | **10** |
| 5 | 3 | **8** | £95,000 - £99,999 | 3 | 2 | **5** |
| 2 | 3 | **5** | £100,000 - £104,999 | 4 | 6 | **10** |
| 1 | 4 | **5** | £105,000 - £109,999 | - | - | **-** |
| - | 2 | **2** | £110,000 - £114,999 | 1 | 1 | **2** |
| - | - | **-** | £115,000 - £119,999 | - | - | **-** |
| - | 2 | **2** | £120,000 + | 1 | 1 | **2** |
| **450** | **355** | **805** | | **468** | **368** | **836** |

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

The figures for both years include those employees with planned termination payments, 37 in 2019/20 (38 in 2018/19). Excluding employees in receipt of planned termination payments, 331 employees in 2019/20 (317 in 2018/19) received remuneration of £50,000 or more.

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

The number of staff in Voluntary Aided and Foundation Schools, with a remuneration of more than £50,000 per annum, was 192 in 2019/20 (2018/19: 225).

## Note 47
## Exit Packages

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies.

| 2018/19 | | | | | | | 2019/20 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Voluntary | | **Total** | | Value of individual package | Compulsory | | Voluntary | | **Total** | |
| No | £m | No | £m | **No** | **£m** | £000 | No | £m | No | £m | **No** | **£m** |
| 3 | 0.8 | - | - | **3** | **0.8** | £250+ | - | - | 4 | 1.3 | **4** | **1.3** |
| 2 | 0.5 | 2 | 0.4 | **4** | **0.9** | £200 - £250 | - | - | 1 | 0.2 | **1** | **0.2** |
| - | - | 11 | 1.8 | **11** | **1.8** | £150 - £200 | - | - | 14 | 2.3 | **14** | **2.3** |
| - | - | 17 | 2.0 | **17** | **2.0** | £100 - £150 | - | - | 16 | 1.9 | **16** | **1.9** |
| 3 | 0.3 | 9 | 0.8 | **12** | **1.1** | £80 - £100 | - | - | 5 | 0.5 | **5** | **0.5** |
| 1 | 0.1 | 7 | 0.5 | **8** | **0.6** | £60 - £80 | 4 | 0.3 | 8 | 0.5 | **12** | **0.8** |
| 7 | 0.4 | 14 | 0.6 | **21** | **1.0** | £40 - £60 | 4 | 0.2 | 18 | 0.9 | **22** | **1.1** |
| 21 | 0.5 | 51 | 1.5 | **72** | **2.0** | £20 - £40 | 11 | 0.3 | 25 | 0.7 | **36** | **1.0** |
| 116 | 0.6 | 245 | 1.7 | **361** | **2.3** | less than £20 | 77 | 0.5 | 206 | 1.6 | **283** | **2.1** |
| **153** | **3.2** | **356** | **9.3** | **509** | **12.5** | **Total** | **96** | **1.3** | **297** | **9.9** | **393** | **11.2** |

In addition to the costs of exit packages identified above, the Council incurred costs of £0.1m in 2019/20 (£0.2m in 2018/19) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

## Note 48
## Auditor Remuneration

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 0.2 | Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year | 0.2 |
| 0.1 | Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year | 0.1 |
| **0.3** | **Total** | **0.3** |

**Note 49**
**Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 16. Grant receipts outstanding at 31 March 2020 are included in the balances within Note 30.

**Members**

Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2019/20 is shown in Note 45.

**Officers**

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

**School Governors**

All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.

**Greater Birmingham and Solihull Business Rates Pooling Arrangement**

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities including acting as intermediary between the authorities and the government in respect of top-up/tariff payments, following the introduction of the Business Rates Retention Scheme.

Following the decision by six members of the GBS Pool to enter into Business Rates Pilots and form new and separate Business Rates Pools attached to those Pilots, outside of the current set up, the Greater Birmingham and Solihull Business Rates Pool ended on 31 March 2019 and ceased to exist with effect from 1 April 2019.

**<u>Other Public Bodies</u>**

<u>Pooled Budgets</u>

The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham & Solihull CCG and Sandwell and West Birmingham CCG. The pooled budget covers 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.

| | 2018/19 | | 2019/20 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Funding provided to the pooled budget | | | | |
| Birmingham City Council | 108.2 | | 104.2 | |
| Combined Clinical Commissioning Groups | 174.7 | | 174.7 | |
| | | **282.9** | | **278.9** |
| Expenditure met from the pooled budget | | | | |
| Birmingham City Council | 108.2 | | 104.2 | |
| Combined Clinical Commissioning Groups | 174.7 | | 174.7 | |
| | | **282.9** | | **278.9** |
| **Net surplus arising from the pooled budget during the year** | | **-** | | **-** |

<u>The Better Care Fund (including the improved Better Care Fund)</u>

The Better Care Fund (BCF) was announced in June 2013 with the intention of driving the transformation of local care services and is operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups (CCGs). Specific resources were earmarked for the BCF by NHS England in its allocation to CCGs. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities. No new money was made available at the time to the health and care system but the BCF provided an opportunity for joint working between local authorities and health organisations to deliver better outcomes for service users. The funding the Council receives through the BCF replaces the Section 256 transfer from the NHS that had been made in previous years.

The improved Better Care Fund (iBCF) was introduced in 2016/17. It was implemented through two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. This Section 31 Grant is received by local authorities and is included in the BCF Pool. For Birmingham this represents a cumulative increase in funds of £33.8m in 2017/18, £47.3m in 2018/19 and £60.3m in 2019/20.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham & Solihull CCG and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2019/20 funding of £92.6m (2018/19: £89.1m) was earmarked for the BCF by the Department of Health via the CCGs as detailed in the table below. The Council's contribution was made up of the resources previously allocated through two capital grants, namely the Disabled Facilities Grant and the Social Care Capital Grant and iBCF.

| Contribution to the BCF Pooled Fund | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Birmingham & Solihull CCG | 77.7 | 80.5 |
| Sandwell and West Birmingham CCG | 11.4 | 12.1 |
| **NHS Contribution** | **89.1** | **92.6** |
| Birmingham City Council | 11.7 | 13.6 |
| iBCF Section 31 Grant | 47.3 | 60.3 |
| **Total BCF Pooled Fund** | **148.1** | **166.5** |

The BCF is used to fund various schemes as identified in the agreed joint plan. The management arrangements for the individual projects depend on the services being provided and include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

| Service Provision | Budgeted Activity | | Nature of Arrangement |
|---|---|---|---|
| | 2018/19 | 2019/20 | |
| | £m | £m | |
| Bed Based Additional Provision | 1.4 | 1.6 | Lead Commissioning – Council |
| Social Care Based Additional Provision | 1.6 | 1.6 | Sole Control – Council |
| Reablement – Kenrick Centre | 1.5 | 1.6 | Sole Control – Council |
| Care Act | 3.1 | 3.2 | Lead Commissioning – Council |
| Carers Strategy | 1.4 | 1.3 | Joint Control |
| Eligibility Criteria | 21.2 | 21.6 | Sole Control – Council |
| Management of Programme | 0.1 | 0.1 | Joint Control |
| Community Services | 47.2 | 48.8 | Sole Control – CCGs |
| Reablement – Rapid Assessment, Interface and Discharge | 1.7 | 1.7 | Sole Control – CCGs |
| Planned Community/Intermediate Care | 0.1 | 0.4 | Sole Control – CCGs |
| Dementia | 2.6 | 2.7 | Sole Control – CCGs |
| Assertive Outreach | 0.3 | 0.3 | Sole Control – CCGs |
| Enhanced Assessment Bed Support | - | 0.5 | Sole Control – CCGs |
| Equipment Contracts | 4.5 | 5.5 | Lead Commissioning – Council |
| Disabled Facilities Grant and Capital | 10.6 | 11.4 | Sole Control – Council |
| Health & Social Care System Improvements | 3.5 | 3.9 | Sole Control - Council |
| | **100.8** | **106.2** | |
| Balance of funding | | | |
| iBCF | 47.3 | 60.3 | Sole Control – Council |
| **Total BCF** | **148.1** | **166.5** | |

## Other Related Parties

During 2019/20 payments, to the value of £421.3m, inclusive of VAT, were payable to related parties of which £24.5m remained outstanding at 31 March 2020. Additionally £58.7m inclusive of VAT, was receivable during 2019/20 from companies in which the Council had a related party interest of which £44.7m remained outstanding at 31 March 2020. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2020 are: assets of £37.3m of investments and £81.5m of loans (of which £78.2m is repayable after 31 March 2021); liabilities of £83.4m of funding guarantee (NEC Developments Plc), £21.5m held as cash invested by Birmingham Children’s Trust and £7.2m of borrowings (of which £4.9m is repayable after 31 March 2021).

Entities Controlled or Significantly Influenced by the Council

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

| | Exp. £m | Income £m | Loans Council as Grantor Granted £m | Loans Council as Grantor Repaid £m | Council Assets at year end £m | Council Liabilities at year end £m |
|---|---|---|---|---|---|---|
| Acivico Limited | 23.3 | 1.8 | 1.2 | 0.1 | 7.0 | 2.9 |
| Birmingham Children's Trust CIC | 207.7 | 17.1 | 6.0 | - | 15.5 | 32.8 |
| Birmingham City Propco Limited | - | 1.1 | - | - | 20.2 | 0.1 |
| InReach (Birmingham) Limited | - | 0.8 | 0.9 | 0.7 | 13.9 | - |
| National Exhibition Centre (Developments) Plc | 5.6 | - | - | 0.1 | - | 83.4 |
| PETPS (Birmingham) Limited | - | - | - | - | - | - |
| PETPS (Birmingham) Pension Funding Scottish Limited Partnership | 3.5 | - | - | - | - | 7.3 |

Separate to the numbers in the table above the Council has made a provision of £4.1m in its accounts for potential reimbursement right support to its subsidiaries.

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

| | Expenditure £m | Income £m | Council Assets at year end £m | Council Liabilities at year end £m |
|---|---|---|---|---|
| Birmingham Airport Holdings Limited (BAH) | - | 7.2 | 2.0 | - |
| Paradise Circus General Partner Limited | 23.7 | 0.6 | 0.4 | 2.0 |

The Council also has relationships with a number of other companies and third party organisations where the assets and liabilities of the Council's holding is not material to the Group Accounts or where the Council has representation and influence on the board of the organisation but has no claim on the assets and liabilities of the organisation. Details of the organisation and its relationship to the Council are set out in the tables below.

Organisations where the Council has 100% share ownership of the company but the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

| | |
|---|---|
| Birmingham Business Support Centre Limited | Fields Millennium Green Trust (Kings Norton) |
| Birmingham Charities Limited | Finance Birmingham Limited |
| Birmingham Curzon Regeneration Company Limited | Forward Homes (Birmingham) Limited |
| Birmingham Endeavour Limited | Frontier Development Holding Limited |
| Birmingham Municipal Housing Limited | Gallery 37 Foundation |
| Birmingham Museums Trust* | Greater Birmingham and West Midlands Brussels Office |
| Birmingham Venture Capital Limited* | NEC Pension Trustee Company Limited* |
| Birmingham Wheels Ltd | NEC Pension Trustee Company No.2 Limited |
| Creative Advantage West Midlands Limited | Performances (Birmingham) Limited* |

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Ascarii Limited
Ascension Ventures
Auctus
Big Button*
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*
Birmingham Schools SPC Phase 1A Limited*
Birmingham Schools SPC Phase 1B Limited*
Birmingham Wholesale Market Company Limited*
Bridge Street Management Ltd
Central Technology Belt
Crowd Technologies
CSR City Limited
Droplet Online
Ex Cathedra
Eyoto Group Limited
Foodient T/A Whisk
Formatzone Limited
Friends of Rectory Park
Frontier Development Capital Limited*
Goodfish Limited
Icknield Port Loop LLP
Inceptum Development Limited
Info-Ctrl Limited
Learning Labs Limited
Midlands Industrial Association Ltd
Mutt Motorcycles Limited
Natural HR Limited
Obillex Limited*
Opinsta Limited
Owned It
Pure Business Services Limited
Stockfield Community Association
UK Municipal Bonds Agency Plc
Veolia Environmental Services Birmingham Ltd*
Vision Technologies
West Midlands Growth Company Limited*
Wetakestock Limited

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

Acocks Green Primary School Academy*
Active Wellbeing Society Limited*
Bartley Green School Academy*
Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd*
Birmingham Disability Resource Centre*
Birmingham Opera Company
Birmingham Organising Committee for the 2022 Commonwealth Games Limited*
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Bournville Village Trust*
Canal & River Trust
Castle Vale Neighbourhood Partnership Board
City of Birmingham Symphony Orchestra*
Clifton Road Youth Centre
Heathfield Primary School Academy*
King Edward VI Academy Trust*
Leigh Trust*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust
Rowheath Pavilion
Sikh Council UK
St Barnabas Sch (Academy)
St. Basil's*
St. Michael's Primary School Academy*
St. Paul's Community Development Trust*
Thorns Collegiate Academy
Warwickshire County Cricket Club*
Waverley School Academy*
West Midlands Ambulance Service
West Midlands Combined Authority*

| | |
|---|---|
| Cottesbrooke Infant and Nursery School Academy* | West Midlands Fire and Rescue Authority |
| Dance Xchange* | Wilson Stuart School Academy* |
| Greater Birmingham and Solihull LEP Ltd. | Witton Lodge Community Association Ltd* |
| Gurdwara Baba Deep Singh Ji Shaheed | Yenton Primary School (Academy)* |
| Harborne Parish Lands Charity | |

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has representation on BID boards within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

| | |
|---|---|
| Acocks Green Village BID | Northfield Town Centre BID |
| Colmore Business District BID | Retail Birmingham Limited* |
| Erdington Town Centre Partnership | Soho Road BID |
| Harborne Village BID Limited | Southside BID |
| Jewellery Quarter Development Trust CIC | Sutton Coldfield Town Centre BID |
| Kings Heath BID | Westside Partnership Limited |

Tenant Management Organisations (TMO) – The Council, whilst not having shareholding, entitlement to returns, nor board representation, does still hold significant influence over these bodies. Those highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2019/20.

| | |
|---|---|
| Bloomsbury Estate Management Board* | Manor Close Residents' Management Organisation |
| Four Towers TMO* | Roman Way Estate Community Interest Company* |
| Holly Rise Housing Co-operative | |

Other Related Parties

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £0.1m within 2019/20 with the following organisations which fall within the definition of related parties:

| | |
|---|---|
| Accessible Transport Group Limited | Penderels Trust Limited |
| Birmingham and Solihull Mental Health Trust | Sandwell and West Birmingham Hospitals NHST |
| Birmingham and Solihull Women's Aid | Sandwell College |
| Birmingham Community Healthcare NHSFT | Sir Josiah Mason Trust |
| Birmingham Women's and Children's NHSFT | South and City College (Birmingham) Limited |
| Birmingham YMCA | St. Anne's Hostel |
| Norton Hall Children and Family Centre | Thompsons Solicitors |
| | Yardley Great Trust |

The value of transactions for other, non-consolidated, related parties, individually less than £0.1m within 2019/20 was net expenditure of £0.3m (£0.8m expenditure and £0.5m income).

**Note 50**
**The Council Acting as Agent**

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

| Agency Role | No | Level of Reserve £m | Gross Expenditure £m |
|---|---|---|---|
| Accountable Body | 26 | 186.0 | 237.6 |
| Provision of External Payrolls | 105 | | 285.3 |
| Arrangements supporting Housing activities | 1 | 1.7 | 9.7 |
| Reporting of Trust activities | 17 | 25.1 | 0.7 |
| Subsidiary Companies | 5 | 24.8 | 3.4 |
| Other transactions | 10 | 0.7 | 0.3 |

<u>External Payrolls</u>

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

<u>Accountable Body Role</u>

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

The Council records and reports the financial activities of the bodies for which it is accountable and may receive directly the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

Greater Birmingham & Solihull Local Enterprise Partnership

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

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

The Council acts as accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

Housing Activities

For a number of mixed tenure housing developments on Council owned land, the Council receives payment for any market sales prior to distribution between the Council and the developer.

Trusts

The Council provides administrative and accountancy support to a number of trusts and some of those are transacted through the Council's bank accounts. Included within this group are activities related to the collection of rent and management of properties on behalf of Housing Trusts and Community Associations.

Subsidiary Companies

Following the disposal of the Council's interests in NEC Group Limited, NEC (Developments) Plc has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts. The Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities. In 2017/18, the Council has set up an arrangement through PETPS (Birmingham) Capital, PETPS (Birmingham) General Partner Limited and their joint partnership, PETPS (Birmingham) Pension Funding Scottish Limited Partnership that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

Other

The Council provides accountancy support to:

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

## Note 51
## Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2020 were £29.7m (2018/19: £30.0m). The trust funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

| | Balance at 31 March 2019 £m | Income £m | Expenditure £m | Balance at 31 March 2020 £m |
|---|---|---|---|---|
| **Council acting as Sole Trustee** | | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.7 | - | - | 0.7 |
| Charles Baker Trust – for the elderly and disabled | 0.3 | - | - | 0.3 |
| Cropwood Estate – management of the estate | 14.9 | | | 14.9 |
| Elford Trust – healthy recreation for Birmingham citizens | 4.2 | | | 4.2 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.9 | 0.1 | 0.3 | 1.7 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 2.0 | 0.1 | 0.1 | 2.0 |
| Other | 0.2 | - | - | 0.2 |
| **Total Council acting as Sole Trustee** | **24.2** | **0.2** | **0.4** | **24.0** |
| **Council acting as Custodian** | | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | 0.5 | 0.1 | 0.1 | 0.5 |
| Bodenham Trust – for children with special educational needs | 0.7 | 0.1 | - | 0.8 |
| Clara Martineau Trust – for children with special educational needs | 4.4 | 0.1 | 0.3 | 4.2 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | 0.1 | 0.1 | 0.2 |
| **Total Council acting as Custodian** | **5.8** | **0.4** | **0.5** | **5.7** |
| **Total Trust Balances** | **30.0** | **0.6** | **0.9** | **29.7** |

Analysis of the assets of the main funds:

| | Restricted Funds at 31 March 2020 £m | Unrestricted Funds at 31 March 2020 £m | Total Funds at 31 March 2020 £m |
|---|---|---|---|
| **Council acting as Sole Trustee** | | | |
| Birmingham Municipal Charity - general charitable objectives | 0.7 | - | 0.7 |
| Charles Baker Trust – for the elderly and disabled | 0.1 | 0.2 | 0.3 |
| Cropwood Estate – management of the estate | 0.5 | 14.4 | 14.9 |
| Elford Trust – healthy recreation for Birmingham citizens | 3.8 | 0.4 | 4.2 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.6 | 0.1 | 1.7 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 1.8 | 0.2 | 2.0 |
| Other | 0.1 | 0.1 | 0.2 |
| **Total Council acting as Sole Trustee** | **8.6** | **15.4** | **24.0** |
| | | | |
| **Council acting as Custodian** | | | |
| Alderson – to let dwelling houses to ex-servicemen and other persons in need | - | 0.5 | 0.5 |
| Bodenham Trust – for children with special educational needs | 0.7 | - | 0.7 |
| Clara Martineau Trust – for children with special educational needs | 3.8 | 0.5 | 4.3 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | - | 0.2 |
| Other | | | |
| **Total Council acting as Custodian** | **4.7** | **1.0** | **5.7** |
| | | | |
| **Total Assets** | **13.3** | **16.4** | **29.7** |

# SUPPLEMENTARY FINANCIAL STATEMENTS 2019/20

## Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

| 2018/19 £m | | Note | 2019/20 £m |
|---|---|---|---|
| | **Income** | | |
| (253.6) | Dwellings rents | | (249.7) |
| (11.4) | Non-dwellings rents | | (9.3) |
| (19.8) | Charges for services and facilities | | (19.2) |
| **(284.8)** | **Total Income** | | **(278.2)** |
| | **Expenditure** | | |
| 50.3 | Repairs and maintenance | | 55.7 |
| 86.1 | Supervision and management | | 80.0 |
| 5.5 | Rent, rates, taxes and other charges | | 5.0 |
| 52.0 | Depreciation and impairment charge | H3 & H6 | 54.0 |
| 0.3 | Debt management costs | | 0.3 |
| **194.2** | **Total Expenditure** | | **195.0** |
| **(90.6)** | **Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services** | | **(83.2)** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:** | | |
| 4.4 | Change in fair value of financial instruments | | 4.3 |
| 50.4 | Interest payable and similar charges | | 48.9 |
| 0.5 | Amortisation of premia and discounts | | 0.7 |
| (0.6) | HRA interest and investment income | | (0.9) |
| (20.9) | (Gains)/ Losses on the disposal of HRA non-current assets | | (13.7) |
| 8.1 | Pensions interest cost and expected return on pensions assets | | 3.7 |
| (3.0) | Capital Grants and Contributions Receivable | | (2.1) |
| **(51.7)** | **(Surplus)/Deficit for the Year on HRA Services** | | **(42.3)** |

## Movement on the Housing Revenue Account Statement

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | | £m |
| (51.7) | (Surplus)/Deficit for the year on the HRA Income and Expenditure Account | (42.3) |
| 46.8 | Adjustments between accounting basis and funding basis under statute (Note 18) | 37.7 |
| **(4.9)** | Net (increase) / decrease before transfers to / (from) reserves | **(4.6)** |
| 4.3 | Transfers to / (from) reserves | 1.5 |
| **(0.6)** | (Increase) / decrease for the year on HRA balance | **(3.1)** |
| (4.8) | HRA Balance Brought Forward | (5.4) |
| **(5.4)** | HRA Balance Carried Forward | **(8.5)** |
| | **Total HRA Reserves** | |
| 5.4 | HRA Balance | 8.5 |
| - | HRA Earmarked Reserves | 1.5 |
| **5.4** | **Total HRA Reserves** | **10.0** |

## Notes to the Housing Revenue Account

### H1. Housing Stock

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

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| 3,712 | 1 bedroom bungalows | 3,706 |
| 14,947 | 1 bedroom flats | 14,853 |
| 58 | 1 bedroom houses | 59 |
| 294 | 2 bedroom bungalows | 295 |
| 10,586 | 2 bedroom flats | 10,490 |
| 8,393 | 2 bedroom houses | 8,327 |
| 30 | 3 or more bedroom bungalows | 30 |
| 3,937 | 3 or more bedroom flats | 3,860 |
| 18,879 | 3 or more bedroom houses | 18,565 |
| **60,836** | **Total housing stock** | **60,185** |

The change in the property numbers is analysed below:

| 2018/19 | | 2019/20 |
|---|---|---|
| 61,453 | Stock at 1 April | 60,836 |
| (680) | Sales | (694) |
| (118) | Demolitions / transfers | (88) |
| 181 | Acquisitions | 131 |
| **60,836** | **Stock at 31 March** | **60,185** |

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

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 2,445.0 | Council dwellings/garages | 2,481.3 |
| 12.7 | Assets under Construction | 14.9 |
| 44.2 | Other land and buildings | 54.7 |
| **2,501.9** | **Total operational assets** | **2,550.9** |
| 19.6 | Non-operational assets | 12.9 |
| **2,521.5** | **Total** | **2,563.8** |

The housing stock, land and other property within the HRA are valued in line with the MHCLG Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2019/20 of 40%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £106.6m was spent on HRA dwellings during the year.

As at 31 March 2020, the Council also owned 126 dwellings (31 March 2019: 118) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £5.2m (31 March 2019: £4.7m).

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

| 31 March 2019 | ` | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 595.7 | Land | 613.9 |
| 18.2 | Kitchens | 16.4 |
| 22.7 | Bathrooms | 21.4 |
| 34.9 | Windows | 29.9 |
| 51.4 | Heating | 47.4 |
| 11.2 | Roofs | 11.9 |
| 1,710.9 | Remaining Structure | 1,740.4 |
| **2,445.0** | **Total** | **2,481.3** |

**H2. Value of Dwellings on Vacant Possession**

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2020 is £6,018.9m.

(b) The difference between the above figure and the figure of £2,481.3m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

**H3. Revaluations and Impairment Charges**

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been no identified impairment in HRA asset values in 2019/20 (2018/19: £nil). The net value of HRA dwellings has increased by £36.3m to £2,481.3m.

### H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 28.6 | Balance on Major Repairs Reserve at 1 April | 24.9 |
| 51.7 | Amount transferred to Major Repairs Reserve during the year | 53.7 |
| (55.4) | Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA | (54.2) |
| **24.9** | **Balance on Major Repairs Reserve at 31 March** | **24.4** |

### H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 43.4 | Usable Capital Receipts (Right to Buy/Land) | 33.4 |
| 55.4 | Major Repairs Reserve | 54.2 |
| 0.2 | HRA Revenue contributions | 4.8 |
| 1.0 | Prudential Borrowing | 8.5 |
| 8.6 | Other resources | 5.7 |
| **108.6** | | **106.6** |

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £49.8m (land £7.1m, houses £42.7m). The values for 2018/19 were £54.5m (land £14.9m and houses £39.6m). The Government operates a capital receipts pooling framework and of these amounts £6.2m was paid to Central Government (2018/19: £6.3m).

### H6. Depreciation Charges

The total charge for depreciation for the houses and other property within the Council's HRA is £54.0m (2018/19: £51.7m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

## H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard 19 as described in detail in Note 22 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

## H8. Rent Arrears

Rent arrears from current tenants at 31 March 2020 totalled £13.7m (2018/19: £12.5m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £24.9m at 31 March 2020 (2018/19: £28.3m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £32.8m at 31 March 2020 (2018/19: £31.5m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 12.5 | Current tenants | 13.7 |
| 13.4 | Housing benefit overpayment | 12.8 |
| 14.9 | Other debt (services/leaseholders) | 12.1 |
| **40.8** | **Total arrears** | **38.6** |
| 31.5 | Provision for bad debts | 32.8 |

## Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and Business Rates or National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

| 2018/19 | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | **Income** | **£m** | **£m** | **£m** |
| (387.1) | | (387.1) | Collectable Council Tax | (415.3) | | (415.3) |
| **(387.1)** | | **(387.1)** | | **(415.3)** | | **(415.3)** |
| | (448.5) | (448.5) | Collectable Business Rates | | (461.5) | (461.5) |
| | 1.8 | 1.8 | Transitional Payment Payable to Government | | 0.9 | 0.9 |
| | **(446.7)** | **(446.7)** | | | **(460.6)** | **(460.6)** |
| | **(2.6)** | **(2.6)** | **Enterprise Zone Deficit Repayable to the Collection Fund** | | **(1.6)** | **(1.6)** |
| | | | **Apportionment of Prior Year Deficit:** | | | |
| - | - | - | Birmingham City Council | - | - | - |
| | (1.8) | (1.8) | Central Government | | - | - |
| - | - | - | West Midlands Fire & Rescue Authority | - | - | - |
| - | | - | West Midlands Police and Crime Comm. | - | | - |
| **-** | **(1.8)** | **(1.8)** | **Total Apportionment of Prior Year Deficit** | **-** | **-** | **-** |
| **(387.1)** | **(451.1)** | **(838.2)** | **TOTAL INCOME** | **(415.3)** | **(462.2)** | **(877.5)** |

| 2018/19 | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | Expenditure | **£m** | **£m** | **£m** |
| | | | **Precepts Demands & Shares Incl Prior Years Surplus:** | | | |
| 329.3 | 436.9 | 766.2 | Birmingham City Council | 347.4 | 453.7 | 801.1 |
| 0.1 | | 0.1 | New Frankley in Birmingham Parish Council | 0.0 | | 0.0 |
| 1.9 | | 1.9 | Sutton Coldfield Town Council | 1.9 | | 1.9 |
| | - | - | Central Government | | - | - |
| 14.7 | 4.4 | 19.1 | West Midlands Fire & Rescue Authority | 15.2 | 4.5 | 19.7 |
| 32.2 | | 32.2 | West Midlands Police and Crime Comm. | 38.4 | | 38.4 |
| | | | **Charges:** | | | |
| 6.1 | 11.1 | 17.2 | Increase/(Decrease) in Provision for Bad and Doubtful Debts | 13.4 | 15.5 | 29.0 |
| | 5.1 | 5.1 | Increase/(Decrease) in Provision for Appeals | | 11.1 | 11.1 |
| | 1.8 | 1.8 | Cost of Collection | | 1.8 | 1.8 |
| **384.3** | **459.3** | **843.6** | **TOTAL EXPENDITURE** | **416.3** | **486.7** | **903.0** |
| **(2.8)** | **8.2** | **5.4** | **(Surplus)/Deficit for the year** | **1.0** | **24.5** | **25.5** |
| **(2.1)** | **(15.7)** | **(17.8)** | **(Surplus)/Deficit brought forward** | **(4.9)** | **(7.5)** | **(12.4)** |
| **(4.9)** | **(7.5)** | **(12.4)** | **(Surplus)/Deficit carried forward** | **(3.9)** | **17.0** | **13.1** |

## Notes to the Collection Fund
### C1. Contributions from Council Taxpayers

The Council's tax base at January 2020 (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 | 167 | 5/9 | 93 |
| A | 88,582 | 6/9 | 59,055 |
| B | 90,480 | 7/9 | 70,373 |
| C | 61,865 | 8/9 | 54,991 |
| D | 32,608 | 1 | 32,608 |
| E | 18,394 | 11/9 | 22,482 |
| F | 8,258 | 13/9 | 11,928 |
| G | 5,486 | 15/9 | 9,143 |
| H | 794 | 18/9 | 1,588 |
| **Total** | **306,634** | | **262,261** |
| Less adjustment for collection rate | | | (7,607) |
| | | | **254,654** |

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 1 | 5/9 | 1 |
| A | 710 | 6/9 | 473 |
| B | 1,028 | 7/9 | 800 |
| C | 86 | 8/9 | 76 |
| D | 54 | 1 | 54 |
| E | 1 | 11/9 | 1 |
| F | 0 | 13/9 | 0 |
| G | 0 | 15/9 | 0 |
| H | 1 | 18/9 | 2 |
| **Total** | **1,881** | | **1,407** |
| Less adjustment for collection rate | | | (41) |
| | | | **1,366** |

The figures for Sutton Coldfield Town Council are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 1 | 5/9 | 1 |
| A | 1,706 | 6/9 | 1,137 |
| B | 3,994 | 7/9 | 3,106 |
| C | 6,240 | 8/9 | 5,547 |
| D | 8,362 | 1 | 8,362 |
| E | 7,897 | 11/9 | 9,652 |
| F | 3,878 | 13/9 | 5,602 |
| G | 2,444 | 15/9 | 4,073 |
| H | 364 | 18/9 | 728 |
| **Total** | **34,886** | | **38,208** |
| Less adjustment for collection rate | | | (1,107) |
| | | | **37,101** |

**C2. Business Ratepayers**

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (49.1p for 2019/20: 48.0p for 2018/19). The total non-domestic rateable value at 31 March 2020 was £1,141.6m (31 March 2019: £1,125.0m).

Since 1 April 2017, the Council is included in a 100% Local Business Rates Retention pilot. The amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 99% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

Previously Business Rates was distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

**C3. Precept Payments**

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the NNDR element of the Collection Fund are the City Council and the West Midlands Fire and Rescue Authority.

## C4. Debtors Outstanding but not Impaired

Balances outstanding for both Council Tax and Business Rates including amounts net of an allowance for impairment are apportioned between the Council and its major preceptors as follows:

### Analysis of Council Tax debtors past due but not impaired

| | 31 March 2019 | | | 31 March 2020 | | |
|---|---|---|---|---|---|---|
| | BCC | Fire | Police | BCC | Fire | Police |
| | £m | £m | £m | £m | £m | £m |
| Council Tax Arrears | 91.1 | 4.0 | 10.0 | 95.8 | 4.1 | 10.8 |
| Impairment Allowance for doubtful debts | (27.2) | (1.2) | (3.0) | (31.0) | (1.3) | (3.5) |
| **Amounts Past Due but not Impaired** | **63.9** | **2.8** | **7.0** | **64.8** | **2.8** | **7.3** |
| | | | | | | |
| Represented by Amounts: | | | | | | |
| Less than 1 Year | 22.8 | 1.0 | 2.5 | 24.0 | 1.0 | 2.7 |
| 1-2 Years | 11.0 | 0.5 | 1.2 | 11.0 | 0.5 | 1.3 |
| 2-6 Years | 25.0 | 1.1 | 2.8 | 23.3 | 1.0 | 2.6 |
| Over 6 Years | 5.1 | 0.2 | 0.6 | 6.5 | 0.3 | 0.7 |
| **TOTAL** | **63.9** | **2.8** | **7.0** | **64.8** | **2.8** | **7.3** |

### Analysis of Business Rates debtors past due but not impaired

| | 31 March 2019 | | | 31 March 2020 | | |
|---|---|---|---|---|---|---|
| | BCC | Fire | MHCLG | BCC | Fire | MHCLG |
| | £m | £m | £m | £m | £m | £m |
| Business Ratepayer Arrears | 95.0 | 1.0 | - | 95.4 | 1.0 | - |
| Impairment Allowance for doubtful debts | (52.0) | (0.5) | - | (47.1) | (0.5) | - |
| **Amounts Past Due but not Impaired** | **43.0** | **0.5** | **-** | **48.3** | **0.5** | **-** |
| | | | | | | |
| Represented by Amounts: | | | | | | |
| Less than 1 Year | 20.0 | 0.2 | - | 29.3 | 0.3 | - |
| 1-2 Years | 7.0 | 0.1 | - | 8.8 | 0.1 | - |
| 2-6 Years | 16.0 | 0.2 | - | 10.2 | 0.1 | - |
| Over 6 Years | - | - | - | - | - | - |
| **TOTAL** | **43.0** | **0.5** | **-** | **48.3** | **0.5** | **-** |

Birmingham
City Council

# Statement of GROUP Accounts 2019/20

## NARRATIVE REPORT

### Introduction

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2019 to 31 March 2020. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

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

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

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2020, with comparative figures for the previous financial year.

### Consolidation of Subsidiaries, Associate Companies and Joint Ventures

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

There have been no changes to the Group structure within the financial year 2019/20.

The entities consolidated into the Council's Group Accounts are:

Subsidiaries
Acivico Limited
Birmingham Children's Trust CIC
Birmingham City Propco Limited
InReach (Birmingham) Limited
National Exhibition Centre (Developments) Plc
PETPS (Birmingham) Limited
PETPS (Birmingham) Pension Funding Scottish Limited Partnership

<u>Associate</u>
Birmingham Airport Holdings Limited

<u>Joint Venture</u>
Paradise Circus General Partner Limited

Innovation Birmingham Limited was disposed of on 18 April 2018 and appears as a discontinued operation in 2018/19.

Further detail regarding the Council's relationship with the above companies is given in notes G23 and G24

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 49, Related Parties to the Council entity accounts.

**Covid-19**

The Covid-19 pandemic only became a major issue in the latter stages of the financial year and therefore the financial performance of the Council's companies would have been unaffected for a substantial part of the year. The continued impact of the activities undertaken to mitigate the spread of the virus may affect the financial performance of the companies in 2020/21 and potentially beyond depending on how long it takes sectors within the economy to recover.

There has been a direct impact of the current situation on asset values within certain companies and details of the performance are set out in more detail in the following notes.

The Council will continue to monitor the performance of its companies. The Council has given no additional letters of comfort to its companies as a result of Covid-19.

**The Main Financial Statements**

The following statements consolidate the accounts of the Council with those of its subsidiaries, associates and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 49, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below.

| | 2018/19 | | 2019/20 | |
|---|---|---|---|---|
| | Entity £m | Group £m | Entity £m | Group £m |
| Surplus/(Deficit) on Provision of Services | (112.4) | (178.8) | 83.4 | 70.3 |

The 2019/20 GCIES shows a favourable movement of £249.1m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2018/19. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

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

| | 2018/19 | | 2019/20 | |
|---|---|---|---|---|
| | Entity | Group | Entity | Group |
| | £m | £m | £m | £m |
| Long Term Assets | 6,227.8 | 6,228.2 | 6,282.6 | 6,286.1 |
| Current Assets | 471.3 | 467.5 | 693.7 | 691.1 |
| Current Liabilities | (1,099.5) | (1,086.0) | (961.0) | (953.1) |
| Long Term Liabilities | (5,870.1) | (5,956.7) | (6,005.2) | (6,065.9) |
| **Net Assets/(Liabilities)** | **(270.5)** | **(347.0)** | **10.1** | **(41.8)** |
| Represented by: | | | | |
| Usable Reserves | 937.4 | 852.9 | 1,048.4 | 980.5 |
| Unusable Reserves | (1207.9) | (1,199.9) | (1,038.3) | (1,022.3) |
| **Total Reserves** | **(270.5)** | **(347.0)** | **10.1** | **(41.8)** |

The net liability has decreased by £305.2m to £41.8m. The major improvement is as a result of the Council entity improvement and also as a result of the reduction in pension deficits in Acivico Ltd and Birmingham Children's Trust CIC.

The difference in the level of usable reserves attributable to group entities has improved by £16.6m, with the company deficit falling from £89.3m to £72.7m. This is again mainly as a result of the reduction in pension deficits reported.

Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

## Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. Discontinued operations relate to Innovation Birmingham which was disposed of on 18 April 2018. The details for 2018/19 have been restated following the Council restructure, details of which are set out in Note 8 in the entity accounts and in Note G3.

| 2018/19 (Restated) Gross Expenditure | Gross Income | Net Expenditure | | Note | 2019/20 Gross Expenditure | Gross Income | Net Expenditure |
|---|---|---|---|---|---|---|---|
| £m | £m | £m | **Continuing Operations** | | £m | £m | £m |
| 452.2 | (122.5) | 329.7 | Adult Social Care & Health | | 461.3 | (121.4) | 339.9 |
| 1,292.5 | (811.9) | 480.6 | Education and Skills | | 1,118.7 | (753.1) | 365.6 |
| 236.2 | (70.4) | 165.8 | Neighbourhoods | | 207.6 | (75.0) | 132.6 |
| 171.3 | (89.7) | 81.6 | Inclusive Growth | | 127.3 | (92.2) | 35.1 |
| 8.0 | (1.7) | 6.3 | Human Resources | | 8.0 | (2.0) | 6.0 |
| 591.4 | (548.6) | 42.8 | Digital & Customer Services | | 564.5 | (528.9) | 35.6 |
| 97.7 | (93.7) | 4.0 | Partnership Insights & Prevention | | 97.6 | (92.0) | 5.6 |
| 21.0 | (11.0) | 10.0 | Finance & Governance | | 11.7 | (14.4) | (2.7) |
| 6.2 | (65.8) | (59.6) | Centrally Managed | | 19.4 | (71.6) | (52.2) |
| 46.8 | - | 46.8 | Superannuation Adjustment | | 11.8 | - | 11.8 |
| 194.2 | (284.8) | (90.6) | Housing Revenue Account | | 195.0 | (278.2) | (83.2) |
| **3,117.5** | **(2,100.1)** | **1,017.4** | **Total Cost of Continuing Operations** | | **2,822.9** | **(2,028.8)** | **794.1** |
| 0.2 | (0.2) | - | Discontinued Operations | G5 | - | - | - |
| **3,117.7** | **(2,100.3)** | **1,017.4** | **Total Cost of Services** | | **2,822.9** | **(2,028.8)** | **794.1** |
| 65.1 | - | 65.1 | Other Operating Expenditure | | 146.2 | - | 146.2 |
| 300.4 | (80.1) | 220.3 | Financing and Investment Income and Expenditure | G6 | 313.6 | (65.3) | 248.3 |
| 2.4 | (1,126.4) | (1,124.0) | Taxation and Non-Specific Grant Income | | 13.9 | (1,272.8) | (1,258.9) |
| | | **178.8** | **(Surplus)/Deficit on Provision of Services** | | | | **(70.3)** |
| | | (2.3) | Share of the (surplus)/deficit on the Provision of Services of Associates | | | | (2.9) |
| | | - | Tax Expense of Subsidiaries | | | | 1.8 |
| | | 1.2 | Tax Expense of Associates | | | | 1.2 |
| | | **177.7** | **Group (Surplus)/Deficit** | | | | **(70.2)** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (230.9) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | G7 | | | (59.6) |
| | | 4.0 | Changes in non-current assets charged to the revaluation reserve | | | | (2.3) |
| | | (203.8) | Remeasurement of the net defined benefit liability | G21 | | | (178.5) |
| | | 4.8 | Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures | | | | 5.4 |
| | | **(425.9)** | | | | | **(235.0)** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | - | (Surplus) / deficit on revaluation of available for sale financial assets | | | | - |
| | | **-** | | | | | **-** |
| | | **(425.9)** | **Other Comprehensive (Income) / Expenditure** | | | | **(235.0)** |
| | | **(248.2)** | **Total Comprehensive (Income) / Expenditure** | | | | **(305.2)** |

## Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held, analysed into ‘usable reserves’ (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

| | General Fund Balance | Housing Revenue Account | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** | Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures | **Total Group Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | **£m** | £m | **£m** | £m | **£m** |
| **Balance at 1 April 2018** | **509.1** | **4.8** | **320.4** | **28.6** | **107.0** | **969.9** | **(1,517.7)** | **(547.8)** | **(19.8)** | **(567.6)** |
| **Movement in Reserves during 2018/19** | | | | | | | | | | |
| Prior Period Adjustment (Note 23) | | | | | | **-** | (27.6) | **(27.6)** | - | **(27.6)** |
| Adjustment for the Restatement of Financial Instruments | (0.5) | | | | | **(0.5)** | (0.5) | **(1.0)** | - | **(1.0)** |
| **Restated Balance brought forward at 1 April 2018** | **508.6** | **4.8** | **320.4** | **28.6** | **107.0** | **969.4** | **(1,545.8)** | **(576.4)** | **(19.8)** | **(596.2)** |
| Surplus/(Deficit) on the provision of services | 40.7 | 51.7 | | | | **92.4** | | **92.4** | (270.1) | **(177.7)** |
| Other Comprehensive Income and Expenditure | | | | | | **-** | 418.3 | **418.3** | 7.6 | **425.9** |
| **Total Comprehensive Income and Expenditure** | **40.7** | **51.7** | **-** | **-** | **-** | **92.4** | **418.3** | **510.7** | (262.5) | **248.2** |
| Adjustments between Group Accounts and Council Accounts | (204.8) | | | | | (204.8) | | (204.8) | 204.8 | - |
| Changes in Group Reserves accounted for through equity (G22) | | | | | | | | | 1.0 | 1.0 |
| **Net Increase/(Decrease) before Transfers** | **(164.1)** | **51.7** | **-** | **-** | **-** | **(112.4)** | **418.3** | **305.9** | **(56.7)** | **249.2** |
| Adjustments between accounting basis and funding basis under regulations (Note 18) | 215.6 | (51.1) | (80.1) | (3.7) | (0.3) | **80.4** | (80.4) | **-** | | **-** |
| **Increase/(Decrease) in 2018/19** | **51.5** | **0.6** | **(80.1)** | **(3.7)** | **(0.3)** | **(32.0)** | **337.9** | **305.9** | **(56.7)** | **249.2** |
| **Balance at 31 March 2019** | **560.1** | **5.4** | **240.3** | **24.9** | **106.7** | **937.4** | **(1,207.9)** | **(270.5)** | **(76.5)** | **(347.0)** |
| **Movement in Reserves during 2019/20** | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | 316.2 | 42.3 | | | | **358.5** | | **358.5** | (288.3) | **70.2** |
| Other Comprehensive Income and Expenditure | | | | | | **-** | 197.2 | **197.2** | 37.8 | **235.0** |
| **Total Comprehensive Income and Expenditure** | **316.2** | **42.3** | **-** | **-** | **-** | **358.5** | **197.2** | **555.7** | **(250.5)** | **305.2** |
| Adjustments between Group Accounts and Council Accounts | (275.1) | | | | | (275.1) | | (275.1) | 275.1 | - |
| Changes in Group Reserves accounted for through equity (G22) | | | | | | | | | - | - |
| **Net Increase/(Decrease) before Transfers** | **41.1** | **42.3** | **-** | **-** | **-** | **83.4** | **197.2** | **280.6** | **24.6** | **305.2** |
| Adjustments between accounting basis and funding basis under regulations (Note 18) | 46.9 | (37.7) | (17.0) | (0.5) | 35.9 | **27.6** | (27.6) | **-** | | **-** |
| **Increase/(Decrease) in 2019/20** | **88.0** | **4.6** | **(17.0)** | **(0.5)** | **35.9** | **111.0** | **169.6** | **280.6** | **24.6** | **305.2** |
| **Balance at 31 March 2020** | **648.1** | **10.0** | **223.3** | **24.4** | **142.6** | **1,048.4** | **(1,038.3)** | **10.1** | **(51.9)** | **(41.8)** |

## Group Balance Sheet

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

| 1 April 2018 (Restated) £m | 31 March 2019 (Restated) £m | | Note | 31 March 2020 £m |
|---|---|---|---|---|
| 5,707.4 | 5,804.7 | Property, Plant and Equipment | G7 | 5,862.4 |
| 251.6 | 249.8 | Heritage Assets | | 249.9 |
| 20.2 | 44.6 | Investment Properties | G8 | 45.4 |
| 13.7 | 7.4 | Intangible Assets | | 12.7 |
| 3.8 | 4.0 | Long Term Investments | | 3.2 |
| 113.6 | 97.7 | Long Term Debtors | | 90.3 |
| 20.5 | 20.0 | Investments in Associates and Joint Ventures | G24 | 22.2 |
| **6,130.8** | **6,228.2** | **Total Long Term Assets** | | **6,286.1** |
| | | | | |
| 72.6 | 69.7 | Short Term Investments | | 228.3 |
| 15.3 | 23.4 | Assets Held for Sale | | 16.7 |
| 1.4 | 1.4 | Inventories | | 1.8 |
| 321.4 | 324.5 | Short Term Debtors | G10 | 380.4 |
| 56.3 | 48.5 | Cash and Cash Equivalents | | 63.9 |
| **467.0** | **467.5** | **Total Current Assets** | | **691.1** |
| | | | | |
| (35.4) | (15.2) | Cash and Cash Equivalents | | (1.7) |
| (796.6) | (552.8) | Short Term Borrowing | | (383.0) |
| (333.1) | (321.3) | Short Term Creditors | G11 | (396.2) |
| (20.7) | - | Liabilities in Disposal Groups | | - |
| (188.1) | (196.7) | Provisions | | (172.2) |
| **(1,373.9)** | **(1,086.0)** | **Total Current Liabilities** | | **(953.1)** |
| | | | | |
| (74.5) | (75.3) | Long Term Creditors | G9 | (73.7) |
| (23.5) | (16.6) | Provisions | | (13.8) |
| (2,644.0) | (2,763.9) | Long Term Borrowing | | (2,880.8) |
| (462.1) | (444.4) | Other Long-Term Liabilities | | (427.9) |
| (2,616.0) | (2,656.5) | Net Liability on Defined Benefit Pension Scheme | G21 | (2,669.7) |
| **(5,820.1)** | **(5,956.7)** | **Total Long-Term Liabilities** | | **(6,065.9)** |
| | | | | |
| **(596.2)** | **(347.0)** | **Net Assets/(Liabilities)** | | **(41.8)** |
| | | | | |
| 937.6 | 852.9 | Usable Reserves | G12 | 980.5 |
| (1,533.8) | (1,199.9) | Unusable Reserves | G13 | (1,022.3) |
| **(595.2)** | **(347.0)** | **Total Reserves** | | **(41.8)** |

## Group Cash Flow Statement

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

| 2018/19 | | Note | 2019/20 |
|---|---|---|---|
| £m | | | £m |
| (177.7) | Net Surplus/(Deficit) on Continuing Operations | | 70.2 |
| - | Net Surplus/(Deficit) on Discontinued Operations | G5 | - |
| **(177.7)** | **Net Surplus/(Deficit) on the provision of services** | | **70.2** |
| 623.5 | Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements | G17 | 519.3 |
| (262.1) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | G17 | (299.1) |
| **183.7** | **Net cash flows from Operating Activities** | | **290.4** |
| (121.7) | Investing Activities | G15 | (421.0) |
| (49.6) | Financing Activities | G16 | 159.5 |
| **12.4** | **Net increase/(decrease) in cash and cash equivalents** | | **28.9** |
| 20.9 | Cash and cash equivalents at the beginning of the reporting period | | 33.3 |
| **33.3** | **Cash and cash equivalents at the end of the reporting period** | | **62.2** |

## NOTES TO THE GROUP ACCOUNTS

**Note G1**
**Accounting Policies**

The Group Financial Statements summarise the Council's and its Group's transactions for the 2019/20 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries, associates or joint ventures with details included in respect of the classification within Notes G23 and G24. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

**Disposal of a Subsidiary Company**

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

**Defined Contribution Pension Schemes**

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G21.

**Defined Benefit Pension Scheme**

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G21.

**Note G2**
**Critical Judgements in Applying Accounting Policies**

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council's Group Accounts.

## Note G3
## Prior Period Adjustment

The Council has realigned its reporting structure and the Group Comprehensive Income and Expenditure Statement has been adjusted to reflect the new arrangements. Details of the prior period adjustments are set out in Note 8 of the entity accounts.

| Directorate Reporting 2018/19 | As Reported in the Comprehensive Income and Expenditure Statement 2018/19 | Adjustments in Internal Directorate Reporting Classifications between years | As Restated in 2018/19 | New Directorate Reporting 2018/19 |
|---|---|---|---|---|
| | £m | £m | £m | |
| **Net Expenditure** | | | | |
| Continuing Operations | | | | |
| Adult Social Care & Health | 333.4 | (3.7) | 329.7 | Adult Social Care |
| Children & Young People | 443.4 | 37.2 | 480.6 | Education and Skills |
| Place | 210.1 | (44.3) | 165.8 | Neighbourhoods |
| Economy | 78.6 | 3.0 | 81.6 | Inclusive Growth |
| Human Resources | 17.1 | (10.8) | 6.3 | Human Resources |
| Strategic Services | 40.2 | (40.2) | - | |
| | - | 42.8 | 42.8 | Digital & Customer Services |
| | - | 4.0 | 4.0 | Partnerships, Insight & Prevention |
| Finance & Governance | (9.1) | 19.1 | 10.0 | Finance & Governance |
| Centrally Managed | (55.0) | (4.6) | (59.6) | Centrally Managed |
| Superannuation adjustment | 46.8 | - | 46.8 | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | 2.5 | (2.5) | - | |
| Housing Revenue Account | (90.6) | - | (90.6) | Housing Revenue Account |
| **Net Cost of Services** | **1,017.4** | **-** | **1,017.4** | |

| Directorate Reporting 2018/19 | As Reported in the Comprehensive Income and Expenditure Statement 2018/19 | Adjustments in Internal Directorate Reporting Classifications between years | As Restated in 2018/19 | New Directorate Reporting 2018/19 |
|---|---|---|---|---|
| **Gross Expenditure** | | | | |
| Continuing Operations | | | | |
| Adult Social Care & Health | 547.0 | (94.8) | 452.2 | Adult Social Care |
| Children & Young People | 1,235.9 | 56.6 | 1,292.5 | Education and Skills |
| Place | 294.4 | (58.2) | 236.2 | Neighbourhoods |
| Economy | 177.7 | (6.4) | 171.3 | Inclusive Growth |
| Human Resources | 18.8 | (10.8) | 8.0 | Human Resources |
| Strategic Services | 591.1 | (591.1) | - | |
| | - | 591.4 | 591.4 | Digital & Customer Services |
| | - | 97.7 | 97.7 | Partnerships, Insight & Prevention |
| Finance & Governance | 5.1 | 15.9 | 21.0 | Finance & Governance |
| Centrally Managed | 3.7 | 2.5 | 6.2 | Centrally Managed |
| Superannuation adjustment | 46.8 | - | 46.8 | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | 2.8 | (2.8) | - | |
| Housing Revenue Account | 194.2 | - | 194.2 | Housing Revenue Account |
| **Gross Cost of Services** | **3,117.5** | **-** | **3,117.5** | |

| Directorate Reporting 2018/19 | As Reported in the Comprehensive Income and Expenditure Statement 2018/19 | Adjustments in Internal Directorate Reporting Classifications between years | As Restated in 2018/19 | New Directorate Reporting 2018/19 |
|---|---|---|---|---|
| **Gross Income** | | | | |
| Continuing Operations | £m | £m | £m | |
| Adult Social Care & Health | (213.6) | 91.1 | (122.5) | Adult Social Care |
| Children & Young People | (792.5) | (19.4) | (811.9) | Education and Skills |
| Place | (84.3) | 13.9 | (70.4) | Neighbourhoods |
| Economy | (99.1) | 9.4 | (89.7) | Inclusive Growth |
| Human Resources | (1.7) | - | (1.7) | Human Resources |
| Strategic Services | (550.9) | 550.9 | - | |
| | | (548.6) | (548.6) | Digital & Customer Services |
| | | (93.7) | (93.7) | Partnerships, Insight & Prevention |
| Finance & Governance | (14.2) | 3.2 | (11.0) | Finance & Governance |
| Centrally Managed | (58.7) | (7.1) | (65.8) | Centrally Managed |
| Superannuation adjustment | - | - | - | Superannuation adjustment |
| Chief Executive & Assistant Chief Executive | (0.3) | 0.3 | - | |
| Housing Revenue Account | (284.8) | - | (284.8) | Housing Revenue Account |
| **Gross Income of Services** | **(2,100.1)** | **-** | **(2,100.1)** | |

**Note G4**
**Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Covid-19 pandemic has created an element of uncertainty in determining valuations, particularly of non-current assets. A valuer has advised that, as market activity is being impacted in many sectors, less weight can be given to market evidence for comparison purposes to inform opinions of value.

As a result of the uncertainty surrounding valuations, the valuers report is on the basis of 'material uncertainty' in line with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards that is effective from 31 January 2020. This means that there is less certainty, and a corresponding higher degree of caution, attached to valuations than would normally be the case. However, the valuer's report adds that, despite the inclusion of the 'Material Valuation Uncertainty, declaration does not mean that the valuation cannot be relied upon but that there is less certainty about the valuation. The clause represents a disclosure and not a disclaimer.

A 1% reduction in the valuation of the Council's group properties would reduce the carrying value on the balance sheet by £59m.

Information on pension valuations has been provided by actuaries supporting the relevant funds based on the best information available at the time of producing the reports. Details of the pension funds and their sensitivity to changes in determinants of the funds assets and obligations are set out in Note 22 in the Council entity Financial Statements and Note G21 of the Group Financial Statements

Other assumptions made about the future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity Financial Statements.

**Note G5**
**Discontinued Operations**

The Council continues to review its partnership arrangements to determine whether there are alternative approaches that may provide a more effective means of delivering services.

As a result of its review, the Council disposed of its interest in Innovation Birmingham Limited on 18 April 2018 through the disposal of head leases in the properties used by the company. Innovation Birmingham Limited was a company, limited by guarantee, with the Council as sole member and was consolidated into the Council's Group Accounts as a subsidiary company. The company's Articles of Association prohibited the distribution of profits.

**Innovation Birmingham**

Comprehensive Income and Expenditure Statement

| | 2018/19<br>£m |
|---|---|
| Turnover | 0.2 |
| Cost of Sales | (0.2) |
| **Gross Profit/(Loss)** | **-** |
| | |
| Other Operating Income | |
| Other Operating Expenditure | - |
| **Operating Profit/(Loss)** | **-** |
| | |
| Interest Payable | - |
| **Profit/(Loss) before Taxation** | **-** |

Cash Flow
Details of the discontinued operations' cash flow are included in the Cash Flow Statement.

**Note G6**
**Financing and Investment Income and Expenditure**

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below.

| 2018/19 Gross Expenditure £m | 2018/19 Income £m | 2018/19 Net £m | | 2019/20 Gross Expenditure £m | 2019/20 Income £m | 2019/20 Net £m |
|---|---|---|---|---|---|---|
| 183.2 | - | 183.2 | Interest Payable and similar charges | 196.3 | - | 196.3 |
| 65.7 | - | 65.7 | Net interest on the net defined benefit liability | 62.8 | - | 62.8 |
| 18.2 | - | 18.2 | (Gain)/Loss on financial assets at amortised cost | 21.5 | - | 21.5 |
| - | (9.5) | (9.5) | (Gain)/Loss on financial assets at Fair Value through Profit & Loss | 4.4 | - | 4.4 |
| 2.2 | - | 2.2 | (Gain)/Loss on the Disposal of Financial Instruments | - | - | - |
| - | (21.6) | (21.6) | Interest Receivable and similar income | - | (28.3) | (28.3) |
| - | (10.9) | (10.9) | Changes in the Fair Value of Investment Properties | - | (0.5) | (0.5) |
| 31.1 | (32.4) | (1.3) | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 28.6 | (31.0) | (2.4) |
| - | (5.7) | (5.7) | Other investment income and expenditure | - | (5.5) | (5.5) |
| **300.4** | **(80.1)** | **220.3** | **Sub Total** | **313.6** | **(65.3)** | **248.3** |

## Note G7
## Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

Movement in Balances 2019/20

| | Council Dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | **Total Property, Plant and Equipment £m** | Service Concession Assets included in Property, Plant & Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2019** | **2,445.0** | **2,386.7** | **165.6** | **660.9** | **63.4** | **172.7** | **200.0** | **6,094.3** | **843.7** |
| Additions | 102.1 | 78.7 | 10.4 | 14.1 | 4.0 | 0.8 | 136.8 | **346.9** | 36.4 |
| Assets reclassified between categories | 8.3 | 17.8 | 0.1 | 20.8 | 11.9 | 16.5 | (78.2) | **(2.8)** | - |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (38.2) | 29.8 | (6.4) | - | - | (23.8) | - | **(38.6)** | (10.9) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (47.4) | (16.0) | - | - | (0.7) | - | **(64.1)** | (16.0) |
| Derecognition - Disposals | (35.9) | (125.4) | (21.8) | - | - | - | - | **(183.1)** | (0.6) |
| Derecognition - Other | - | - | - | - | - | - | - | **-** | - |
| Assets reclassified (to)/from Held for Sale | - | (3.2) | - | - | - | 5.3 | - | **2.1** | - |
| Other movements in Cost or Valuation | - | - | - | - | - | - | - | **-** | - |
| **At 31 March 2020** | **2,481.3** | **2,337.0** | **131.9** | **695.8** | **79.3** | **170.8** | **258.6** | **6,154.7** | **852.6** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2019** | **-** | **(28.9)** | **(71.3)** | **(189.4)** | **-** | **-** | **-** | **(289.6)** | **(201.6)** |
| Depreciation charge | (53.8) | (53.3) | (15.3) | (25.3) | - | (0.4) | - | **(148.1)** | (31.7) |
| Depreciation written out to the Revaluation Reserve | 53.1 | 39.1 | 3.4 | - | - | 2.4 | - | **98.0** | 9.3 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 12.1 | 8.6 | - | - | 0.4 | - | **21.1** | 8.7 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | - | - | - | - | - | - | - | **-** | - |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | - |
| Derecognition - Disposals | 0.7 | 2.6 | 22.5 | - | - | - | - | **25.8** | - |
| Derecognition - Other | - | - | - | - | - | - | - | **-** | - |
| Assets reclassified to/(from) Held for Sale | - | 0.7 | - | - | - | (0.2) | - | **0.5** | - |
| Other movements in Depreciation and Impairment | - | 2.2 | - | - | - | (2.2) | - | **-** | - |
| **At 31 March 2020** | **-** | **(25.5)** | **(52.1)** | **(214.7)** | **-** | **-** | **-** | **(292.3)** | **(215.3)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2020** | **2,481.3** | **2,311.5** | **79.8** | **481.1** | **79.3** | **170.8** | **258.6** | **5,862.4** | **637.3** |
| **At 31 March 2019** | **2,445.0** | **2,357.8** | **94.3** | **471.5** | **63.4** | **172.7** | **200.0** | **5,804.7** | **693.5** |

## Movement in Balances 2018/19

| | Council Dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Surplus assets £m | Assets under construction £m | **Total Property, Plant and Equipment £m** | Service Concession Assets included in Property, Plant & Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2018** | **2,283.8** | **2,485.6** | **178.9** | **629.6** | **62.2** | **112.2** | **196.7** | **5,949.0** | **811.9** |
| Adjustment to Opening Balance | | (27.6) | | | | | | **(27.6)** | |
| **Restated Opening Balance 1 April 2019** | **2,283.8** | **2,458.0** | **178.9** | **629.6** | **62.2** | **112.2** | **196.7** | **5,921.4** | **811.9** |
| Additions | 102.8 | 53.7 | 5.2 | 30.0 | 2.3 | - | 100.3 | **294.3** | 32.6 |
| Assets reclassified between categories | 16.7 | 63.1 | 1.1 | 1.3 | (1.1) | 1.4 | (96.8) | **(14.3)** | |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 76.5 | (12.7) | - | - | - | 73.3 | - | **137.1** | (0.9) |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | - | (110.2) | - | - | - | - | (0.2) | **(110.4)** | 0.4 |
| Derecognition - Disposals | (34.8) | (53.3) | (19.6) | - | - | (2.0) | - | **(109.7)** | (0.3) |
| Derecognition - Other | - | - | - | - | - | - | - | **-** | |
| Assets reclassified (to)/from Held for Sale | - | (11.9) | - | - | - | (12.2) | - | **(24.1)** | |
| Other movements in Cost or Valuation | - | - | - | - | - | - | - | **-** | |
| **At 31 March 2019** | **2,445.0** | **2,386.7** | **165.7** | **660.9** | **63.4** | **172.7** | **200.0** | **6,094.3** | **843.7** |
| | | | | | | | | | |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2018** | **-** | **(28.1)** | **(74.0)** | **(111.9)** | **-** | **-** | **-** | **(214.0)** | **(121.1)** |
| Depreciation charge | (51.7) | (59.8) | (16.4) | (26.2) | - | (0.6) | - | **(154.7)** | (32.4) |
| Depreciation written out to the Revaluation Reserve | 51.0 | 41.5 | - | - | - | 0.1 | - | **92.6** | 2.3 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | 13.2 | - | - | - | - | - | **13.2** | 0.9 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | - | 0.8 | - | - | - | - | - | **0.8** | |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | - | 0.8 | - | (51.3) | - | - | - | **(50.5)** | |
| Derecognition - Disposals | 0.7 | 2.2 | 19.1 | - | - | 0.1 | - | **22.1** | 0.1 |
| Derecognition - Other | - | 0.5 | - | - | - | 0.4 | - | **0.9** | |
| Assets reclassified to/(from) Held for Sale | - | - | - | - | - | - | - | **-** | |
| Other movements in Depreciation and Impairment | - | - | - | - | - | - | - | **-** | |
| **At 31 March 2019** | **-** | **(28.9)** | **(71.3)** | **(189.4)** | **-** | **-** | **-** | **(289.6)** | **(150.2)** |
| | | | | | | | | | |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2019** | **2,445.0** | **2,357.8** | **94.3** | **471.5** | **63.4** | **172.7** | **200.0** | **5,804.7** | **693.5** |
| **At 31 March 2018** | **2,283.8** | **2,457.5** | **104.9** | **517.7** | **62.2** | **112.2** | **196.7** | **5,735.0** | **690.8** |

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts.

**Note G8**
**Investment Properties**

The Council, Birmingham City PropCo Limited and InReach Limited have non-current assets that meet the criteria for treatment as investment properties. Details of the financial impact of Investment Properties are set out below.

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| **Cost or Valuation** | | |
| **At 1 April** | **20.2** | **44.6** |
| Assets reclassified between categories | 13.5 | - |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 10.9 | 0.8 |
| **At 31 March** | **44.6** | **45.4** |

| Recurring Fair Value Measurement | Input Level in Fair Value Hierarchy | Valuation Technique used to measure Fair Value | Fair Value 31 March 2019 | Fair Value 31 March 2020 |
|---|---|---|---|---|
| | | | £m | £m |
| Highest and Best Use | Level 2 | The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge. | 35.7 | 37.5 |
| Highest and Best Use | Level 3 | The fair value has been measured using a market approach taking into account yields from rental compared to similar assets. | 8.9 | 7.9 |

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section
- For InReach (Birmingham) Limited, David Farrow MRICS and Daniel Winter MRICS of Savills (UK) Limited
- For Birmingham City PropCo Limited, James Williamson MRCIS and Ian Elliot MRCIS of Avison Young (UK) Ltd

**Note G9**
**Financial Instruments**

This note sets out the differences from the information contained in Note 40 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

Debtors and Cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G10.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G11.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long term creditors are brought into the Group Financial Statements upon group consolidation.

| | Long-term | |
|---|---|---|
| | 31 March 2019 | 31 March 2020 |
| | £m | £m |
| **Creditors** | | |
| NEC 7.56% Loan Stock – maturity 30 September 2027 | (73.0) | (73.0) |

The fair value of the loan stock is based on the Market Value as quoted by Bloomberg on 31 March 2020.

| **Financial Liabilities** | **Input level in Fair Value Hierarchy** | **Valuation inputs and assumptions used to measure Fair Value** | **31 March 2019** | | **31 March 2020** | |
|---|---|---|---|---|---|---|
| | | | Carrying Amount £m | Fair Value £m | Carrying Amount £m | Fair Value £m |
| NEC Loan Stock | Level 1 | Stock Market valuation | 73.0 | 102.6 | 73.0 | 103.1 |

Within the Council entity accounts, the guarantee given to NEC Developments (NECD) for the repayment of the Loan Stock is treated as borrowing and as a reimbursement right within NECD. The guarantee was determined at fair value on the disposal of the NEC in 2015 and is accounted for using the Effective Interest Rate method.

Long Term Borrowing
The reduction in long term borrowing at 31 March 2020 between the Council entity accounts, £2,971.5m and the group accounts, £2,880.8m, is largely represented by the borrowing recognised by the Council associated with group entities, namely NECD and PETPS SLP. These transactions are eliminated on consolidation.

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

**Note G10**
**Short Term Debtors**

The table below shows amounts owed to the Council's Group undertakings at the end of the year that are due within 12 months. These balances have been split by type of organisation to reflect the potential relative risks that the Council faces. In determining the level of debtors, an additional assessment has been made of the likelihood of recoverability in light of the impact of Covid-19 on the economy. The actual level of recovery will continue to be monitored to ensure that the recovery rate is as high as practicable.

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 68.6 | Central government bodies | 110.2 |
| 21.2 | Other local authorities | 29.3 |
| 8.3 | NHS bodies | 7.4 |
| 2.5 | Public corporations and trading funds | 3.5 |
| 223.9 | Other entities and individuals | 230.0 |
| **324.5** | **Total** | **380.4** |

**Note G11**
**Short Term Creditors**

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

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| (26.2) | Central government bodies | (83.5) |
| (6.7) | Other local authorities | (7.2) |
| (1.3) | NHS bodies | (3.5) |
| (64.1) | Public corporations and trading funds | (50.5) |
| (223.0) | Other entities and individuals | (251.5) |
| **(321.3)** | **Total** | **(396.2)** |

**Note G12**
**Usable Reserves**

Details of the Group's usable reserves are set out below.

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 560.1 | General Fund Balances | 648.1 |
| 5.4 | Housing Revenue Account (HRA) | 10.0 |
| 240.3 | Capital Receipts Reserve | 223.3 |
| 24.9 | Major Repairs Reserve | 24.4 |
| 106.7 | Capital Grants Unapplied | 142.6 |
| (89.3) | Company Profit & Loss | (72.7) |
| 4.8 | Merger Reserve | 4.8 |
| **852.9** | **Total** | **980.5** |

Details of General Fund Balances are set out in Note 19 of the entity accounts.

**Note G13**
**Unusable Reserves**

The following table shows the value of Group reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend. The unusable reserves have been restated as detailed in Notes 20 and 23.

| 31 March 2019 (Restated) £m | | 31 March 2020 £m |
|---|---|---|
| 2,004.3 | Revaluation Reserve | 1,986.2 |
| (339.7) | Capital Adjustment Account | (211.3) |
| (48.1) | Financial Instruments Adjustment Account | (64.3) |
| 37.7 | Deferred Capital Receipts | 42.4 |
| (2,676.2) | Pensions Reserve | (2,591.3) |
| 10.0 | Collection Fund Adjustment Account | (14.6) |
| (174.5) | Equal Pay Back Pay Account | (153.2) |
| (14.0) | Accumulated Absences Account | (16.8) |
| 0.6 | Called up Share Capital | 0.6 |
| **(1,199.9)** | **Total** | **(1,022.3)** |

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

## Revaluation Reserve

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

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

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| **1,896.8** | **Balance at 1 April** | **2,004.3** |
| (27.6) | Adjustment to Opening Balance (Note 23) | - |
| **1,869.2** | **Revised Balance at 1 April** | **2,004.3** |
| | **Revaluations not posted to (Surplus)/Deficit on the Provision of Services** | |
| 430.4 | Council: Upward revaluation of assets | 349.3 |
| (199.5) | Council: Downward revaluation of assets | (289.7) |
| - | Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services | - |
| **230.9** | **Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services** | **59.6** |
| | **Amounts written off to the Capital Adjustment Account** | |
| (51.1) | Council: Difference between fair value depreciation and historical cost depreciation | (36.4) |
| (40.7) | Council: Accumulated gains on assets sold or scrapped | (43.6) |
| - | Council: Adjustment for transfer of land to Investment Property | - |
| **(91.8)** | **Council: Amount written off to the Capital Adjustment Account** | **(80.0)** |
| | **Group Movements** | |
| (4.0) | Other movements in reserve in Group entities | 2.3 |
| **(4.0)** | **Total Group Movements** | **2.3** |
| **2,004.3** | **Balance at 31 March** | **1,986.2** |

The Council is allowed under statute to reverse out the financial impact from its Comprehensive Income and Expenditure Statement where it has impaired or revalued equity in a company or where it has given a 'soft' loan to another organisation. The impact of adjustments form part of the unusable reserves.

In consolidating group accounts, inter company transactions are eliminated. However, where the Council has either revalued assets or has given a soft loan to a group entity then the carrying values in the two organisations would be different. For consolidation, the entries in the Council Financial Statements, reducing the carrying value of assets, would need to be reversed prior to elimination. Details of the impacts are detailed below.

**Capital Adjustment Account**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| **(339.7)** | **Carrying Value in Council Financial Statements** | **(214.4)** |
| - | Reversal of downward revaluation of equity | 3.1 |
| **(339.7)** | **Revised Value in Group Financial Statements** | **(211.3)** |

**Financial Instruments Adjustment Account**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| **(48.1)** | **Carrying Value in Council Financial Statements** | **(67.0)** |
| - | Reversal of impact of 'soft' loan given to group entity | 2.7 |
| **(48.1)** | **Revised Value in Group Financial Statements** | **(64.3)** |

## Note G14
## Cash Flow Statement - Operating Activities

The cash flows from operating activities include the items set out below.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (21.6) | Interest Received | (28.3) |
| 183.2 | Interest Paid | 196.3 |
| (5.7) | Dividends Received | (5.5) |

## Note G15
## Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (264.9) | Purchase of property, plant and equipment, investment property and intangible assets | (334.9) |
| (1,081.1) | Purchase of short-term and long-term investments | (2,080.9) |
| - | Investing Activities of Discontinued Operations | - |
| 87.4 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 71.8 |
| 1,083.8 | Proceeds from short-term and long-term investments | 1,923.0 |
| 53.1 | Other receipts from investing activities | - |
| **(121.7)** | **Net cash flows from investing activities** | **(421.0)** |

## Note G16
## Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 126.5 | Other receipts from financing activities | 225.9 |
| 1,962.8 | Cash Receipts from short-term and long-term borrowing | 1,629.3 |
| (47.4) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (23.0) |
| (2,086.6) | Repayments of short-term and long-term borrowing | (1,674.1) |
| (4.9) | Other payments for financing activities | 1.4 |
| **(49.6)** | **Net cash flows from financing activities** | **159.5** |

**Note G17**
**Group Cash Flow Statement – Other Adjustments**

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| 154.6 | Depreciation/Impairment charge | 148.2 |
| 8.2 | Amortisation of Intangible Assets | 4.5 |
| 78.6 | Derecognition of Non-Current Assets | 161.5 |
| (4.3) | (Increase)/Decrease in Investments | 7.0 |
| 160.0 | Revaluation of Non-Current Assets | 36.1 |
| 13.9 | (Increase)/Decrease in Debtors | (46.6) |
| (33.5) | Increase/(Decrease) in Creditors | 58.2 |
| (0.1) | (Increase)/Decrease in Inventories | (0.2) |
| 1.7 | Increase/(Decrease) in Provisions | (27.3) |
| 244.4 | Pensions Liability | 177.9 |
| **623.5** | | **519.3** |

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

| 2018/19 £m | | 2019/20 £m |
|---|---|---|
| (126.5) | Capital Grants | (225.9) |
| (140.5) | Capital Receipts | (71.8) |
| 4.9 | Council Tax and Business Rates Adjustments | (1.4) |
| **(262.1)** | | **(299.1)** |

**Note G18**
**Group Expenditure and Funding by Nature of Activity**

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 9 to the entity accounts.

| 2018/19 | | 2019/20 |
|---|---|---|
| £m | Expenditure | £m |
| 1,147.9 | Employee Benefits Expenses | 975.9 |
| 1,703.5 | Other Service Expenses | 1,702.5 |
| 312.6 | Depreciation, Amortisation and Impairment | 194.5 |
| 248.9 | Interest Payments | 259.4 |
| 10.9 | Movement in the valuation of financial assets | 22.9 |
| 50.0 | Precepts and Levies | 49.9 |
| 6.3 | Payments to Housing Capital Receipts Pool | 6.2 |
| 5.5 | Loss on Disposal of Non-Current Assets | 85.3 |
| **3,485.6** | **Total Expenditure** | **3,296.6** |
| | Income | |
| (618.7) | Fees, Charges and Other Services Income | (542.6) |
| (762.9) | Income from Council Tax and Business Rates | (793.3) |
| (1,897.9) | Government Grants and Contributions | (1,996.7) |
| (27.3) | Interest and Investment Income | (34.3) |
| **(3,306.8)** | **Total Income** | **(3,366.9)** |
| **178.8** | **(Surplus)/Deficit on Provision of Services** | **(70.3)** |

**Note G19**
**Related Parties**

Details of the Council's material transactions with related parties are provided in Note 49 to the Council entity accounts. Details of the subsidiary companies of group entities are detailed in the relevant Notes G23 and G24 to these group financial statements.

In addition to the related parties detailed within Note 49 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include business rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

**Note G20**
**Leases**

## Group as the lessee

Details of the Council's finance and operating leases are included in Note 43 to the Council entity accounts.

## Group as the lessor

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 43 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

### Leases by Group entities to External Organisations

Finance leases

Details of the Council's finance leases are provided in Note 43 to the Council entity accounts.

The Council created Birmingham City Propco Limited in 2017/18 to provide a vehicle for commercial investment. The company purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels. Details of the leases are set out below.

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.1 | - Current | 0.1 |
| 20.1 | - Non current | 20.1 |
| 46.1 | Unearned finance income | 45.1 |
| - | Unguaranteed residual value of property | - |
| **66.3** | **Gross investment in the lease** | **65.3** |

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

| | Finance lease debtor | | Minimum lease payments | |
|---|---|---|---|---|
| | 31 March 2019 £m | 31 March 2020 £m | 31 March 2019 £m | 31 March 2020 £m |
| Not later than one year | 0.1 | 0.1 | 1.0 | 1.1 |
| Later than one year and not later than five years | 0.2 | 0.2 | 4.1 | 4.1 |
| Later than five years | 19.9 | 19.8 | 61.2 | 60.1 |
| **Total** | **20.2** | **20.1** | **66.3** | **65.3** |

Operating Leases

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| £m | | £m |
| 0.4 | Not later than one year | 0.4 |
| 1.7 | Later than one year and not later than five years | 1.7 |
| 26.1 | Later than five years | 25.9 |
| **28.2** | **Gross investment in the lease** | **28.0** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

**Note G21**
**Defined Benefit Pension Schemes**

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 21 and 22 to the Council entity accounts.

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

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. Allowance has been made for the potential impact in the results reported.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| Present value of funded defined benefit obligations | (89.4) | (70.8) |
| Fair value of plan assets | 79.3 | 71.9 |
| Adjustment for pension surplus in Acivico (Building Consultancy) | | (1.7) |
| **Net (Liability)/Asset** | **(10.1)** | **(0.6)** |

Movements in the present value of defined benefit obligation:

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| Balance at beginning of period | 87.0 | 89.4 |
| Current service cost | 2.8 | 1.3 |
| Interest cost | 2.2 | 1.9 |
| Actuarial (gains)/losses | (0.8) | (11.5) |
| Contributions by members | 0.5 | 0.3 |
| Liabilities Extinguished on Settlement | - | (9.9) |
| Past Service cost including Curtailments | 0.6 | 1.0 |
| Benefits paid | (2.9) | (1.7) |
| **31 March** | **89.4** | **70.8** |

Movements in the fair value of plan assets:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Balance at beginning of period | 77.7 | 79.3 |
| Return on assets (less interest) | | |
| Interest on assets | 2.0 | 1.8 |
| Actuarial (losses)/gains | 0.8 | (2.7) |
| Settlements | | (6.2) |
| Contributions | 1.6 | 1.5 |
| Benefits paid | (2.8) | (1.7) |
| **31 March** | **79.3** | **71.9** |

Expense recognised in the profit and loss account:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | 2.8 | (1.4) |
| Included in Operating Cost | 2.8 | (1.4) |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 2.2 | 1.9 |
| Interest income on plan assets | (2.0) | (1.8) |
| Net interest cost | 0.2 | 0.1 |
| **Total income statement expense/(income)** | **3.0** | **(1.3)** |

Other Comprehensive Income

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

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Actuarial (gain)/loss on liabilities | (0.8) | (11.5) |
| Actuarial (gain)/loss on plan assets | (0.8) | 2.7 |
| **Remeasurement (gain)/loss recognised during the period** | **(1.6)** | **(8.8)** |

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

| | 2018/19 Fair Value £m | 2018/19 Fair Value % | 2019/20 Fair Value £m | 2019/20 Fair Value % |
|---|---|---|---|---|
| Equities | 46.9 | 59 | 42.4 | 59 |
| Government Bonds | 7.7 | 10 | 7.1 | 10 |
| Other Bonds | 3.0 | 4 | 2.8 | 4 |
| Property | 6.7 | 8 | 5.7 | 8 |
| Cash/Liquidity | 2.5 | 3 | 3.7 | 3 |
| Other | 12.5 | 16 | 10.2 | 16 |
| **Total** | **79.3** | **100** | **71.9** | **100** |

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

| | 2018/19 | 2019/20 |
|---|---|---|
| | % | % |
| Discount rate | 2.4 | 2.35 |
| Future salary increases | 3.9 | 2.9 |
| Future pension increases | 2.4 | 1.9 |
| CPI increases | 2.4 | 1.9 |

In valuing the liabilities of the pension fund at 31 March 2020, mortality assumptions have been made as indicated below.

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

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 20.9 | 21.9 |
| Female: member aged 65 (current life expectancy) | 23.2 | 23.8 |
| Male: member aged 45 (life expectancy at age 65) | 22.6 | 24.1 |
| Female: member aged 45 (life expectancy at age 65) | 25.0 | 26.0 |

The valuation of the defined benefit obligation is sensitive to the assumption adopted for the discount rate. The effect of a 0.1% increase in the discount rate is set out below

| | £m |
|---|---|
| Effect on service cost | (0.1) |
| Effect on defined benefit obligation | (1.4) |

Birmingham Children's Trust CIC

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career salary average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

A ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. An additional liability of £4.3m has been recognised in the 2019/20 financial statements.

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Present value of funded defined benefit obligations | (258.7) | (252.2) |
| Fair value of plan assets | 182.4 | 179.6 |
| **Net (Liability)/Asset** | **(76.3)** | **(72.6)** |

Movements in the present value of defined benefit obligation:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Balance at beginning of period | - | 258.7 |
| Transfer on creation of Trust | 231.2 | - |
| Current service cost | 20.0 | 21.3 |
| Interest cost | 6.0 | 6.5 |
| Past Service Cost | | 4.3 |
| Change in financial assumptions | 13.1 | (37.0) |
| Change in demographic assumptions | (13.9) | 7.0 |
| Contributions by scheme members | 3.0 | 3.4 |
| Experience/(gain) on defined benefit obligation | - | (10.9) |
| Benefits paid | (0.7) | (1.1) |
| **31 March** | **258.7** | **252.2** |

Movements in the fair value of plan assets:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Balance at beginning of period | - | 182.4 |
| Transfer on creation of Trust | 155.5 | - |
| Return on assets (less interest) | 8.8 | (13.1) |
| Other actuarial losses | | (8.3) |
| Interest on assets | 4.2 | 4.6 |
| Administrative expenses | (0.1) | (0.1) |
| Settlement prices received/(paid) | 11.7 | 11.8 |
| Contributions by scheme members | 3.0 | 3.4 |
| Benefits paid | (0.7) | (1.1) |
| **31 March** | **182.4** | **179.6** |

Expense recognised in the profit and loss account:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| **Operating Costs:** | | |
| Current Service Cost | 8.3 | 13.8 |
| Administrative Expenses | 0.1 | 0.1 |
| Included in Operating Cost | 8.4 | 13.9 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 6.0 | 6.5 |
| Interest income on plan assets | (4.2) | (4.6) |
| Net interest cost | 1.8 | 1.9 |
| | | |
| **Total Income Statement expense** | **10.2** | **15.8** |

Other Comprehensive Income

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

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Return on plan assets in excess of interest income | (8.8) | (13.1) |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | 13.0 | 37.0 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | (13.9) | (7.0) |
| Other actuarial losses on assets | - | (8.3) |
| Experience gain on defined benefit obligation | - | 10.9 |
| **Remeasurement gain/(loss) recognised during the period** | **(9.7)** | **19.4** |

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

| | 2018/19 Fair Value | | 2019/20 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 105.6 | 58 | 102.2 | 57 |
| Gilts | 13.7 | 8 | 20.9 | 12 |
| Other Bonds | 7.0 | 4 | 7.5 | 4 |
| Property | 16.3 | 9 | 16.0 | 9 |
| Cash/Liquidity | 9.5 | 5 | 6.4 | 4 |
| Other | 30.3 | 16 | 26.6 | 14 |
| **Total** | **182.4** | **100** | **179.6** | **100** |

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

| | 2018/19 | 2019/20 |
|---|---|---|
| | % | % |
| Discount rate | 2.45 | 2.35 |
| Future salary increases | 3.85 | 2.8 |
| Future pension increases | 2.35 | 1.8 |
| CPI increases | 2.35 | 1.8 |

In valuing the liabilities of the pension fund at 31 March 2020, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| Male: member aged 65 (current life expectancy) | 20.9 | 21.9 |
| Female: member aged 65 (current life expectancy) | 23.2 | 23.8 |
| Male: member aged 45 (life expectancy at age 65) | 22.6 | 24.1 |
| Female: member aged 45 (life expectancy at age 65) | 25.0 | 26.0 |

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

| | Impact of Change | |
|---|---|---|
| | Defined Benefit Obligation | Current Service Cost |
| | £m | £m |
| An increase in the discount rate of 0.1% | (6.2) | (0.4) |
| An increase in long term salary estimate of 0.1% | 1.2 | - |
| An increase in the rate of pension increases of 0.1% | 5.3 | 0.4 |
| An increase in anticipated life expectancy of 1 year | 8.3 | 0.6 |

PETPS (Birmingham) Limited
Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The most recently completed formal actuarial valuations of the Fund and the Scheme were at 5 April 2019. The funding requirements are based on the Statements of Funding Principles of the Fund and the Scheme. The funding is based on a separate actuarial valuation for funding purposes, for which assumptions may differ from the assumptions set out in these disclosures. The defined benefit obligations are measured using the projected unit method and discounted at the rate of return on high quality corporate bonds of equivalent term.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Comparative figures for 2018/19 for the Fund and the Scheme have been provided.

Balance Sheet

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

| | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|
| Present value of funded obligations | (206.8) | (194.0) |
| Fair value of plan assets | 190.2 | 190.7 |
| Deficit for funded plans | (16.6) | (3.3) |
| Unrecognised asset due to the asset ceiling | (1.4) | - |
| **Retirement Benefit Obligation** | **(18.0)** | **(3.3)** |

Income Statement

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

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| **Operating Costs:** | | |
| Administration Expenses | 0.7 | 0.9 |
| Past Service Cost | 0.8 | - |
| Included in Operating Cost | 1.5 | 0.9 |
| | | |
| **Financing Costs:** | | |
| Interest cost on pension scheme liabilities | 4.9 | 4.9 |
| Interest income on plan assets | (4.5) | (4.6) |
| Net interest cost | 0.4 | 0.3 |
| | | |
| **Total income statement expense** | **1.9** | **1.2** |

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows. The figures for 2018/19 have been restated to reflect an increase in the return on plan assets in excess of interest income by £0.2m.

| | 2018/19 (Restated) £m | 2019/20 £m |
|---|---|---|
| Return on plan assets in excess of interest income | 5.4 | (1.7) |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | (10.2) | 9.5 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | 4.0 | (3.0) |
| Actuarial gain/(loss) on liabilities due to experience | (1.3) | 5.6 |
| **Remeasurement gain/(loss) recognised during the period** | **(2.1)** | **10.4** |

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Beginning of Period | (200.6) | (206.8) |
| Past Service Cost | (0.8) | - |
| Interest Cost | (4.9) | (4.9) |
| Actuarial gain/(loss) on liabilities due to changes in financial assumptions | (10.2) | 9.5 |
| Actuarial gain/(loss) on liabilities due to changes in demographic assumptions | 4.0 | (3.0) |
| Actuarial gain/(loss) on liabilities due to experience | (1.3) | 5.6 |
| Benefits Paid | 7.0 | 5.6 |
| **Present value of obligation at 31 March** | **(206.8)** | **(194.0)** |

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

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| Beginning of Period | 183.0 | 190.2 |
| Interest income on plan assets | 4.6 | 4.5 |
| Return on plan assets in excess of interest income | 5.4 | (1.7) |
| Contributions by employer | 4.9 | 4.2 |
| Administration expenses paid | (0.7) | (0.9) |
| Benefits paid | (7.0) | (5.6) |
| **Fair value of plan assets at 31 March** | **190.2** | **190.7** |

Plan Assets

The major categories of plan assets are as follows:

| | 31 March 2019 | | 31 March 2020 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities, GTAA and Hedge Funds | 76.7 | 40 | 70.2 | 37 |
| Bonds and Cash | 89.6 | 47 | 96.9 | 51 |
| Property | 16.9 | 9 | 17.2 | 9 |
| Gilts | 7.0 | 4 | 6.4 | 3 |
| | **190.2** | **100** | **190.7** | **100** |

Assumptions

The principal assumptions made by the actuary were:

| | 31 March 2019 % | 31 March 2020 % |
|---|---|---|
| Discount rate – Fund/Scheme | 2.4/2.35 | 2.20/2.25 |
| RPI Inflation rate | 3.25 | 2.55/2.70 |
| CPI Inflation rate | 2.35 | 1.85/1.90 |
| Future Pension increases | | |
| - pension accrued prior to 5 April 2005 | 3.1 | 2.55/2.70 |
| - pension accrued after 5 April 2005 | 2.1 | 1.95/2.05 |

The base mortality assumptions for the Fund are based on SAPS tables (S3 series). Adjustments were applied to reflect the Scheme's populations with future improvements based on the CMI 2019 projection with a long term rate of improvement of 1.25% p.a. (2018/19: 1.25%).

The life expectancy for members as at the Balance Sheet date:

| | 31 March 2019 Years | | 31 March 2020 Years | |
|---|---|---|---|---|
| | Fund | Scheme | Fund | Scheme |
| Male: member aged 65 (current life expectancy) | 21.6 | 24.0 | 22.0 | 23.4 |
| Female: member aged 65 (current life expectancy) | 24.2 | 26.4 | 25.1 | 26.3 |
| Male: member aged 45 (life expectancy at age 65) | 22.5 | 25.4 | 22.8 | 24.7 |
| Female: member aged 45 (life expectancy at age 65) | 25.7 | 27.8 | 26.5 | 27.7 |

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.0m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £9.0m
An increase of one year to life expectancy would increase the retirement benefit obligations by £8.2m

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

Expected Contributions for 2020/21

The contribution schedule in force sets out contributions of £2.5m that will be paid into the Fund in the 2020/21 financial year. The contribution into the Fund will be paid from the Asset Backed Funding arrangement that was put in place in 2017. No contributions are expected to be paid to the Scheme in the 2020/21 financial year.

## Note G22
## Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund balance back to its Council position prior to funding basis adjustments being made.

| | General Fund Balance £m | Housing Revenue Account (HRA) £m | Capital Receipts Reserve £m | Major Repairs Reserve £m | Capital Grants Unapplied £m | **Total Usable Reserves** £m | Unusable Reserves £m | **Total Council Reserves** £m | Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £m | **Total Group Reserves** £m |
|---|---|---|---|---|---|---|---|---|---|---|
| 2018/19 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 20.3 | | | | | 20.3 | | 20.3 | (20.3) | - |
| Purchases of goods and services from subsidiaries | (225.1) | | | | | (225.1) | | (225.1) | 225.1 | - |
| **Total adjustments between Group accounts and Council accounts** | **(204.8)** | **-** | **-** | **-** | **-** | **(204.8)** | **-** | **(204.8)** | **204.8** | **-** |
| 2019/20 | | | | | | | | | | |
| Provision of goods and services to subsidiaries | 22.6 | | | | | 22.6 | | 22.6 | (22.6) | - |
| Purchases of goods and services from subsidiaries | (297.7) | | | | | (297.7) | | (297.7) | 297.7 | - |
| **Total adjustments between Group accounts and Council accounts** | **(275.1)** | **-** | **-** | **-** | **-** | **(275.1)** | **-** | **(275.1)** | **275.1** | **-** |

**Note G23**
**Subsidiary Companies**

### I. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in May 2020, to ensure that it was able to meet its liabilities as they fell due as detailed in Note 33 of the entity accounts.

The year-end of the company is 31 March and for the purposes of consolidation the accounts for the period to 31 March 2020 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| Total Comprehensive Income for the Year | 4.5 | 6.4 |
| Net Assets/(Liabilities) at the year-end | (7.7) | (1.3) |

There was no qualification to the audit opinion on the last audited accounts of the group. Information regarding transactions during the year and balances held at the year-end between the Council and Acivico Limited Group can be found within Note 49 of the Council entity accounts.

### II. Birmingham Children’s Trust CIC

Birmingham Children’s Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust’s draft accounts for 2019/20, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

| | 2018/19 £m | 2019/20 £m |
|---|---|---|
| **Comprehensive Income and Expenditure** | | |
| Turnover | 202.0 | 212.4 |
| Other Income | 8.9 | |
| Operating Expenses | (295.2) | (223.4) |
| **Operating Profit/(Loss)** | **(84.3)** | **(11.0)** |
| | | |
| Interest Receivable | 4.4 | 0.2 |
| Interest Payable | (6.1) | (1.9) |
| **Profit/(Loss) for the Year** | **(86.0)** | **(12.7)** |
| | | |
| Other Comprehensive Income | | |
| Actuarial Gain/(Loss) on defined benefit scheme | 15.7 | 19.4 |
| **Total Comprehensive Income for the Year** | **(70.3)** | **6.7** |
| | | |
| **Balance Sheet** | | |
| Intangible Asset | - | 5.3 |
| **Total Non-Current Assets** | **-** | **5.3** |
| | | |
| Debtors | 8.5 | 13.7 |
| Short Term Investments | 27.0 | 21.5 |
| Cash and Cash Equivalents | 0.3 | - |
| **Total Current Assets** | **35.8** | **35.2** |
| | | |
| Cash Overdrawn | - | (1.0) |
| Creditors due within one year | (25.8) | (20.5) |
| **Total Current Liabilities** | **(25.8)** | **(21.5)** |
| | | |
| Long Term Borrowing | (4.0) | (10.0) |
| Pension Liabilities | (76.3) | (72.6) |
| **Total Long Term Liabilities** | **(80.3)** | **(82.6)** |
| | | |
| **Total Assets/(Liabilities)** | **(70.3)** | **(63.6)** |
| | | |
| Reserves | (70.3) | (63.6) |
| **Total Reserves** | **(70.3)** | **(63.6)** |

### III. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The position at the year end is detailed below.

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | (1.0) | (1.0) |
| Net Assets/(Liabilities) at the year-end | 7.7 | 6.9 |

The year end of the company is 31 March 2020. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

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

### IV. PETPS (Birmingham) Limited

PETPS (Birmingham) Limited, a company limited by guarantee, was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2020 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Limited can be found within Note 49 of the Council entity accounts.

### V. PETPS (Birmingham) Pension Funding Scottish Limited Partnership

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement was created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2020, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £7.3m (31 March 2019: £10.6m).

At 31 March 2020, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| Profit/(Loss) for the year | - | - |
| Net Assets/(Liabilities) at the year-end | - | - |

The year-end of the company is 31 March 2020 and for the purposes of consolidation these accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 49 of the Council entity accounts.

### VI. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, in 2015/16 to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood.

Throughout the whole of the reporting periods considered in these financial statements, the Council has held 100% of the £2,000,100 share capital of the company.

| | 2018/19<br>£m | 2019/20<br>£m |
|---|---|---|
| Operating Profit/(Loss) for the year | - | 0.4 |
| Change in value of Investment Property | 9.5 | - |
| Interest Payable | | (0.7) |
| Tax | | (1.8) |
| Total Comprehensive Income for the Year | 9.5 | (2.1) |
| Net Assets/(Liabilities) at the year-end | 10.8 | 8.7 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2020 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

**VII. Birmingham City Propco Limited**

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 2018/19 to provide a vehicle for commercial investment. The initial transactions of the company were to purchase the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels, which were completed on 15 March 2018.

| | 2018/19 | 2019/20 |
|---|---|---|
| | £m | £m |
| Profit/(Loss) for the year | 0.1 | (2.6) |
| Net Assets/(Liabilities) at the year-end | 9.0 | 6.4 |

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2020 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham City Propco Limited can be found within Note 49 of the Council entity accounts.

**Note G24**
**Associate and Joint Venture**

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

**I. Birmingham Airport Holdings Limited**

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and by the Employee Share Ownership Plan, 2.75%. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2020. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.68% within this 49% it is considered that the Council has greater power to influence the voting of the block;

- 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 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 467.7 | Non-Current Assets | 496.7 |
| 152.5 | Current Assets | 239.6 |
| (73.9) | Current Liabilities | (176.7) |
| (439.4) | Non-Current Liabilities | (440.8) |
| 106.9 | Net Assets | 118.8 |
| **20.0** | **Council Interest in Net Assets @ 18.68%** | **22.2** |
| **160.8** | **Revenue** | **171.1** |
| 25.6 | Post-Tax Profit/(Loss) | 16.4 |
| (3.0) | Other Comprehensive Income/(Expenditure) | 24.6 |
| 22.6 | Total Comprehensive Income/(Expenditure) | 41.0 |
| **4.2** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%** | **7.7** |

The carrying value of the Council's interest in this entity is £22.2m (2018/19: £20.0m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2020 has disclosed the following contingent liabilities within its financial statements:

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

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry a fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;

- On 16 January 2019 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc in support of a £25m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility has been drawndown.

- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2019. The senior notes are for a period of 30 years maturing on 24 January 2050 and carry a fixed interest rate of 2.44% per annum.

- On 23 January 2020, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £85m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2020. The senior notes are for a period of 30 years maturing on 24 January 2049 and carry a fixed interest rate of 3.21% per annum.

- The company, in its role as parent company to the group, has provided a statutory guarantee to certain subsidiaries for all outstanding liabilities as at 31 March 2020. This guarantee allows the subsidiary companies to take the audit exemption form obtaining a signed statutory audit opinion under section 479A of the Companies Act 2006. The subsidiaries provided with the guarantee were:

    - Birmingham Airport Air Traffic Limited;
    - Birmingham Airport Developments Limited;
    - Birmingham Airport Operations Limited;
    - Birmingham Airport Services Limited;
    - BHX Fire and Rescue Limited;
    - Euro-Hub (Birmingham) Limited; and
    - First Castle Developments Limited.

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

**II. Paradise Circus Limited Partnership**

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims of making Birmingham an entrepreneurial city to learn, work and invest in. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2019. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2020. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the joint venture for the year ended 31 March is as follows:

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 17.7 | Non-Current Assets | 20.3 |
| 14.3 | Current Assets | 14.3 |
| (4.9) | Current Liabilities | (5.6) |
| (37.4) | Non-Current Liabilities | (41.9) |
| (10.3) | Net Assets/(Liabilities) | (12.9) |
| **(5.2)** | **Council Interest in Net Liabilities @ 50%** | **(6.5)** |
| **7.3** | **Revenue** | **19.3** |
| (7.1) | Post-Tax Profit/(Loss) | (2.6) |
| - | Other Comprehensive Income/(Expenditure) | - |
| (7.1) | Total Comprehensive Income/(Expenditure) | (2.6) |
| **(3.6)** | **Council Interest in Total Comprehensive Income/(Expenditure) @ 50%** | **(1.3)** |

The carrying value of the Council's interest in this entity is a net deficit of £6.5m (2018/19: £5.2m deficit), which is included within the current liabilities in the Group Balance Sheet.

# Annual Governance Statement 2019/20

## Annual Governance Statement 2019/20

### 1 Scope of responsibility

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

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

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

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

### 2 The purpose of the governance framework

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

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

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

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

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

3 **The governance framework**

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

The Council's vision and priorities for Birmingham

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Council is sole member of the Trust and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April 2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.

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

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

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

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

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

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

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

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

<u>Roles, Values and Standards of Conduct and Behaviour of Members and Officers</u>

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

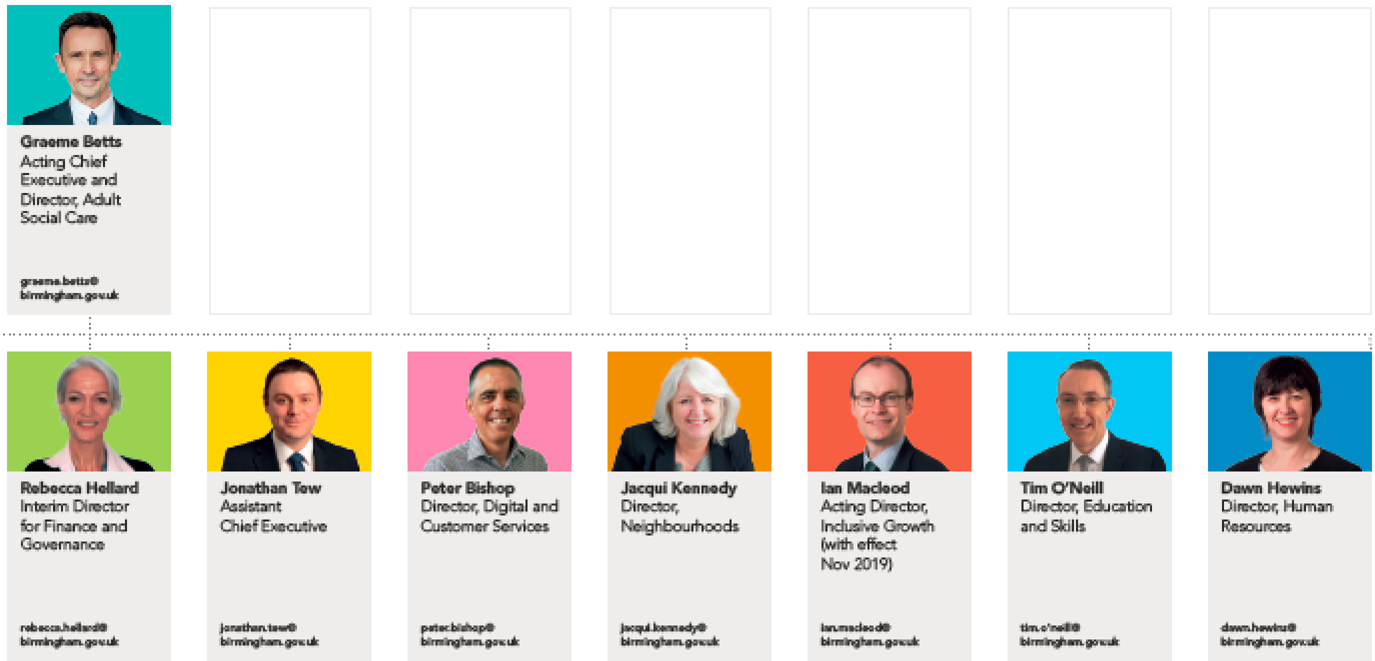
3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.

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

<u>Management Structure</u>

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

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




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

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

Financial Management Arrangements

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

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

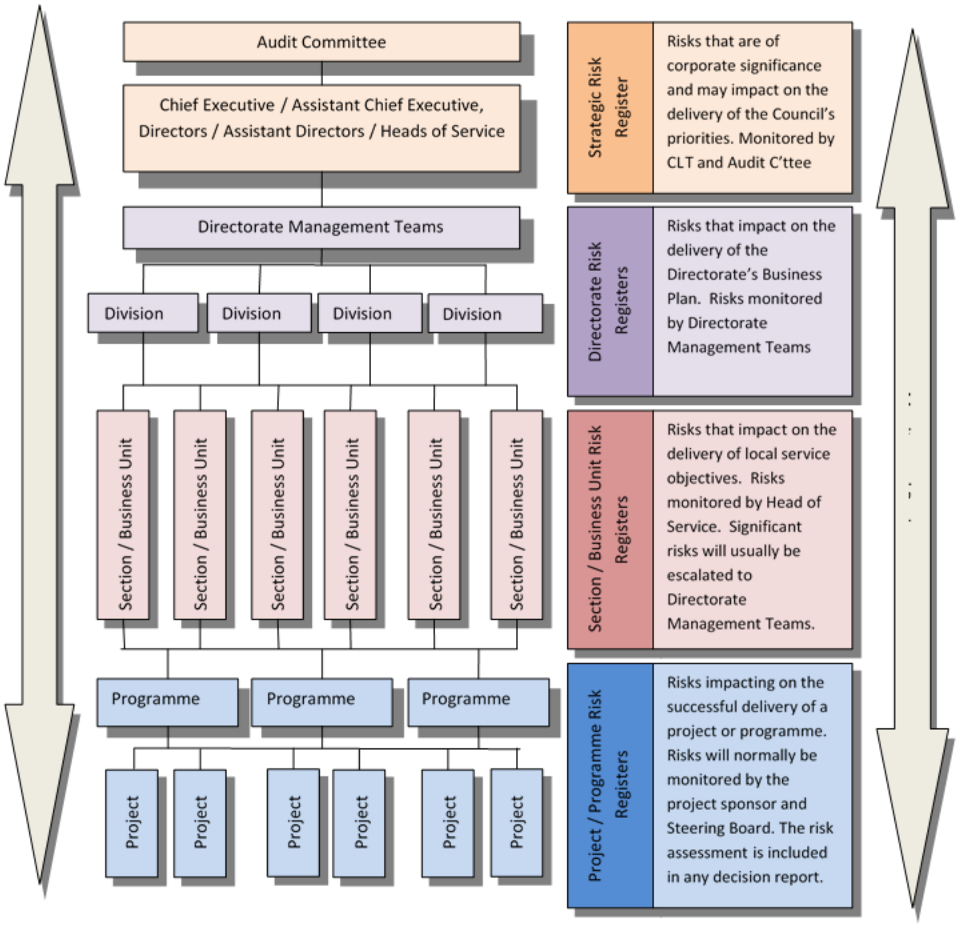
Scrutiny, Accountability and Risk Management

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

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

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

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




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

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

Progressive Assurance Model

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

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

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

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

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

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

External Audit

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

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

Member Development

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

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

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

This gives details of legislation, training opportunities and other issues of importance to Members.

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

- The Members' Development Programme 2019/20 was delivered around: Role Specific Training, ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees;

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

Workforce

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

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

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

Engagement with the community and other stakeholders

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

3.55. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.

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

## 4 Review of effectiveness

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

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

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

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

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

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

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

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

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

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

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

4.9. From the work undertaken by Birmingham Audit during 2019/20 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action.* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.

4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CLT. The more significant of these are set out in the section entitled '**Significant governance issues 2019/20'** below.

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

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

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

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

5 **Review of 2018/19 governance issues**

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

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

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

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

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

6 **Significant governance issues 2019/20**

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

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 1 | **Covid-19 Pandemic**<br>The Council declared a major emergency and the emergency plan was put into full effect.<br>As of w/c 23 March, the council was operating under its Emergency Plan, with decisions being made on a 'command and control' basis.<br><br>The pandemic poses unprecedented public health and operational challenges across many council services. | Strategic Cell (Gold Command) is supported by Tactical Cell and a number of thematic cells to manage the Council's emergency response.<br><br>New legislation enabled democratic decision-making to resume remotely, with meetings web cast on a priority basis.<br><br>City Council received a 68 page report detailing the initial response across services and scenario planning for recovery. |
| 2 | **Financial Resilience**<br><br>The Council faces continued pressure in its use of resources. This poses challenges to the financial resilience of the Council. | Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'.<br><br>The impact of Covid-19 on our financial resilience is also of concern<br><br>Given the Council is in the tenth year of budget constraints the possibility of Judicial Review challenge to the budget or elements of it, remains high. | impacts of proposals and a commitment from Cabinet to future budgeting.<br><br>Governance processes have been reviewed and significantly enhanced to improve the production of implementation plans and monitoring of the most significant savings proposals at the highest level. We have now introduced monthly exception reporting to focus on significant pressures, key risks and emerging issues and to drive actions around these. This will enhance Star Chamber discussions with portfolio holders and improve overall scrutiny of financial issues.<br><br>PWC has been commissioned to conduct an early review of the capital programme and improve the robustness of major projects financial governance.<br><br>The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19. |
| 3 | **Major Projects and Partnership Working**<br><br>The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example:<br>• Working with neighbouring authorities in the West Midlands Combined Authority<br>• Strengthening partnership working as Birmingham works towards hosting the Commonwealth Games 2022.<br>• Working with private sector partners on major developments in the City such as Paradise and Smithfield.<br>• Birmingham Children's Trust.<br>• Sustainability Transformation Programme | The partnership with neighbouring authorities through the West Midlands Combined Authority continues to develop. The next stages are vital as devolution is implemented, making sure that work leads to permanent benefits for the region.<br><br>The Council is reviewing the way it works with its partners - working equally to a common shared purpose.<br><br>Children's Services moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | | Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases and shadow working arrangements. |
| 4 | **Homelessness and Safety Implications for Tower Blocks**<br><br>The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.<br><br>Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks. | We have refurbished and opened two buildings for the use of temporary accommodation. Reduced B&B from a peak of 690 in May 2018 to 419 in December 2019.<br>Work is underway with the repairs contractors to meet a new temporary accommodation specification to deliver 380 units.<br><br>A Fire Safety Steering Group has been set up to lead on and coordinate BCC's response to the building a Safer Future report and the Grenfell Tower Inquiry Phase 1 Report. The project plan continues to be delivered through the fire safety steering group<br>Housing Management are leading on the strategy for engagement with tenants and developing a wider engagement strategy, picking up on the Dame Judith Hackitt recommendations in this regard. |
| 5 | **Asset Condition and Sufficiency**<br><br>Many operational assets are in very poor condition following years of budget restrictions and lack of investment.<br><br>There is an aging schools estate with some assets that are beyond repair.<br><br>The demand for secondary school places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency. | The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development.<br><br>Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space |
| 6 | **Commonwealth Games**<br>Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of | The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | legacy benefits) for the Council as well as significant financial commitments. | management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners. |
| 7 | **Commissioning and Contract Management**<br>Intelligent Client Functions are not robust enough, leading to a number of contracts underperforming or developing risks to service provision. | Early identification of issues or problems, ensuring the contracts and output specifications are delivered to required standards and deliver continuous improvement – tailored to each contract as necessary.<br><br>On-going identification of mitigating actions to reduce the level of risk. |
| 8 | Birmingham SEND Inspection – Inadequate provision and Written Statement of Action required<br><br>Joint CQC and Ofsted inspection of Birmingham SEND provision raised significant concerns requiring the CCG and Council to provide a joint response in the form of a Written Statement of Action.<br><br>This, in conjunction with the implementation of the SEND two-year improvement programme is making the necessary and important improvements for the current local offer for children and young people addressing the issues raised in the OFSTED and CQC inspection. | Monthly board meetings for inclusion take place with the CCG. Trust and the education and skills directorate, alongside quarterly review meetings with the DfE is closely monitoring progress and ensuring the authority is on track to make the expected progress and deliver the important improvement agenda. |

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

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

Signed ………………………………
Councillor Ian Ward
Leader of the Council

Signed …………………………
Chris Naylor
Acting Chief Executive

## Glossary

**Academy School**
A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

**Accounting Policies**
The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

**Accruals**
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

**Amortised Cost**
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the Balance Sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

**Annual Governance Statement**
The Annual Governance Statement is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

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

**Balances**
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

**Beacon Properties**
In valuing the Housing Stock the Council's properties are grouped into types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

**Business Rates**
A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

**Capital Charge**
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which result in certain other types of spending being treated as capital expenditure.

**Capital Financing Requirement (CFR)**
A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

**Capital Receipt**
Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

**Cash Flow Statement**
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

**CIPFA/SOLACE Framework**
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

**Collection Fund**
A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

**Community Assets**
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement (CIES)**
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Consistency**
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Creditors**
Amounts owed by the Council for work done, goods received or services rendered or taxation owed, but for which payment has not been made by the end of the year.

**Current Value**
Current Value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The Current Value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

**Debtors**
Amounts owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

**Deferred Capital Receipts**
Income that is still due following disposal of a non-current asset.

**Defined Benefit Pension Scheme**
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Defined Contribution Pension Scheme**
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciated Replacement Cost**
A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

**Depreciation**
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

**Earmarked Reserve**
A reserve which has been set aside for a specific purpose.

**Effective Interest Rate**
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

**Emoluments**
Payments received in cash and benefits for employment.

**Events After the Reporting Period**
Those events, both favourable and adverse, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer.

**Existing Use Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Expenditure and Funding Analysis**
The Expenditure and Funding Analysis shows how the Council allocates between the Council's Directorates, expenditure for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

**Fair Value**
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees and Charges**
Income arising from the provision of services, for example, the use of car parks.

**Finance Lease**
A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

**Financial Instruments**
Financial Instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of Financial Instruments provide an efficient flow and transfer of capital throughout all the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of Financial Instrument, or evidence of one's ownership of an entity.

**General Fund**
The account which records income and expenditure for all the services of the Council except for the Housing Revenue Account and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

**Government Grants**
Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

**Heritage Assets**
Assets that the Council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**
A separate account detailing the expenditure and income arising from the provision of council housing. Local authorities are required to maintain this separately from the General Fund.

**Impairment**
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

**Infrastructure Assets**
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

**International Financial Reporting Standards**
International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**Investment Properties**
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

**Investments – long term**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

**Investments - short term**
A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

**Lender Option Borrower Option (LOBO)**
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

**Liabilities**
Amounts due to individuals or organisations, at the Balance Sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the Balance Sheet date.

**Long Term Creditors**
These creditors represent existing liabilities to be settled beyond 12 months of the Balance Sheet date.

**Long Term Debtors**
These debtors represent income still to be received beyond 12 months of the Balance Sheet date, for example on the sale of an asset or granting of a loan.

**Market Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Materiality**
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision (MRP)**
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

**Movement in Reserves Statement (MiRS)**
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**Net Book Value**
The amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Operating Lease**
A lease other than a finance lease.

**Operational Assets**
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**Precept**
Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), which the Council collects on their behalf.

**Prior Period Adjustments**
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Private Finance Initiative (PFI)**
A form of contract involving an external company providing services for a fixed period, using facilities that they have inherited/provided/constructed.

**Property, Plant and Equipment**
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Provisions**
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

**Related Parties**
There is a detailed definition of related parties in FRS8, Related Party Disclosures. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

**Reserves**
Reserves are reported in two categories.

<u>Usable Reserves</u>
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

<u>Unusable Reserves</u>
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in

Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

**Revenue Expenditure**
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

**Right to Buy (RTB) Capital Receipts**
Capital receipts generated from the sale of council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on council housing.

**Soft Loan**
Loans at nil or below prevailing interest rates are often referred to as soft loans.

**Top-up Grant**
Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

**Voluntary Revenue Provision (VRP)**
Voluntary Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements that the Council chooses to make over and above Minimum Revenue Provision.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

## Report on the Audit of the Financial Statements

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **AUDIT COMMITTEE** |
| **Report of:** | **Assistant Director, Audit & Risk Management** |
| **Date of Meeting:** | **29th September 2020** |
| **Subject:** | **Birmingham Audit Annual Fraud Report 2019/20** |
| **Wards Affected:** | **All** |

## 1. Purpose of Report

1.1 The attached report updates the Audit Committee on how the Council has managed the risk of fraud during the period April 2019 to March 2020.

## 2. Recommendations

2.1 Members note the work undertaken during the year and draw assurance from the policies and procedures that are in place to prevent and detect fraud and error.

## 3. Background

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

3.2 The level of fraud across the UK economy and the public sector continues to increase and remains of national interest.

3.3 Counter fraud and error work remains a priority for the Council and we continue to reinforce the ‘zero tolerance’ message.

3.4 Processes and procedures are in place for the prevention and detection of fraud and error.

3.5 The number of fraud and error referrals received has remained at a consistent level.

3.6 Social housing and Council Tax exemptions / discounts continue to remain high risk areas. We have achieved positive results in these areas.

## 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 are asked to note the content of this report.

**…………………………………..**
**Sarah Dunlavey**
**Assistant Director, Audit & Risk Management**

**Contact officer: Sarah Dunlavey, Assistant Director, Audit & Risk Management**

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# Birmingham Audit Annual Fraud Report 2019/20

**29th September 2020**

**Contents**

## 1. Background

1.1 In common with other public bodies the 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 arose during 2019/20, and in particular the role played by Birmingham Audit in the investigation, prevention and detection of fraud.

1.2 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. During a period of change internal controls can become unstable and ineffective, so it is important that any increased risk of fraud is identified and appropriately managed. 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 also assist management in taking action against those found to have perpetrated fraud and in the recovery of any losses.

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

## 2. Audit Committee

2.1 The Audit Committee has shown a keen interest in, and been supportive of, both proactive and reactive work within the Council to reduce levels of fraud and error. 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.

2.2 Previously, the Audit Committee have received our self-assessment of the Council's performance in countering fraud against the Audit Commission publication 'Protecting the Public Purse'. We were able to report that the Council was performing well against the questions on the checklist, and we have done likewise in a subsequent self-assessment of our performance against the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption (revised publication produced following the abolition of the Audit Commission). We participate in CIPFA's annual survey of Corruption and Fraud and take on board any best practice arising from the survey results. During the year we also contributed to the Local Government Fraud Strategy – Fighting Fraud Locally, and the Government review into the Risks of Fraud and Corruption in Local Government Procurement. We will continue to assess our performance to ensure that it is in line with expectations and align our resources and processes accordingly.

## 3. Resources for Counter Fraud Work

3.1 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 Council, whether this is by employees, contractors or other third parties. The team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. In addition, where criminal activity has been committed, the team will refer the matter to the police and help seek redress from the perpetrators. The team will also investigate any issues of procedural non-compliance which may have a financial or reputational impact on the Council. A specialist team within CFT was established in 2010 to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. An Intelligence Hub was also created to support the work of the team. The resources available for counter fraud activities have remained largely unchanged since 2016/17 which has allowed us to continue with both reactive and proactive investigations as well as exploring new initiatives through increased use of data analytics.

3.2 In recent years we have re-prioritised our work to concentrate on the more material cases, as well as putting greater emphasis on proactive work to try and identify and stop fraud and error. This has largely been achieved by enhancing our fraud monitoring capability to extract data from Council systems and develop analytical tests designed to detect fraud and error by flagging up any unusual patterns in transactions for further interrogation and investigation. This also helps to inform the routine audit assurance work in these key financial systems. We are continually looking to enhance our counter fraud capability and develop new and innovative ways of identifying irregularities, whether this is the result of fraud, error, or procedural non-compliance.

## 4. Raising Awareness

4.1 The overall stance on fraud by the 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 in 2015. Adopting a strategic response which commits to tackling fraud at all levels within the organisation, fits in line with the principles of good governance.

4.2 As part of our work in raising awareness of fraud throughout the Council we produce Fraud Spotlight, a bi-annual fraud bulletin covering topical fraud related issues. This is circulated throughout the City Council via the intranet, and a school specific version is distributed to all schools via the Schools Noticeboard. We also periodically issue alerts whenever we become aware of a fraud threat in a particular area, and review and revise corporate policies and procedures to respond to particular issues. We continue to explore the use of other media to help raise awareness of fraud as well as participating in local counter fraud networks to exchange examples of best practice.

4.3 During the year we were asked by the Adult Social Care Directorate to provide fraud awareness training to their managers. This was in part due to the occurrence of a number of significant employee frauds within the directorate. A series of four training workshops were delivered to train around 150 managers, which resulted in some very positive feedback and a number of referrals of potential fraud. We also use the directorate's staff newsletter to issue alerts and provide general advice on fraud related matters.

4.4 We continue to work closely with the Neighbourhoods Directorate to ensure that staff involved in dealing with housing applications and tenancy issues are aware of the risks of fraud in this area. We have also established a good working relationship with Revenues & Benefits in tackling Council Tax related fraud and dealing with any associated benefit issues which may arise from our investigations.

4.5 We continually look for innovative ways to raise awareness of tenancy fraud and during the year we participated in an interview with the Birmingham Mail to publish an article on the work that we do in this area https://www.birminghammail.co.uk/news/midlands-news/scandal-housing-fraud-amid-birmingham-17057066. We were also approached by a television company to participate in a programme that they were looking to produce on tenancy fraud, however this didn't materialise. We continue to publicise some of our successful prosecution outcomes to highlight the consequences of committing this type of fraud.

## 5. Levels of Fraud

5.1 It is difficult to measure the level of fraud. Not all fraud is formally reported, some will go undetected and some will be prevented. 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, or where a procurement process has been intentionally circumvented, resulting in items being supplied but not necessarily at the best price. The level of identified fraud in any particular year can vary significantly, depending on the nature and outcome of the cases investigated.

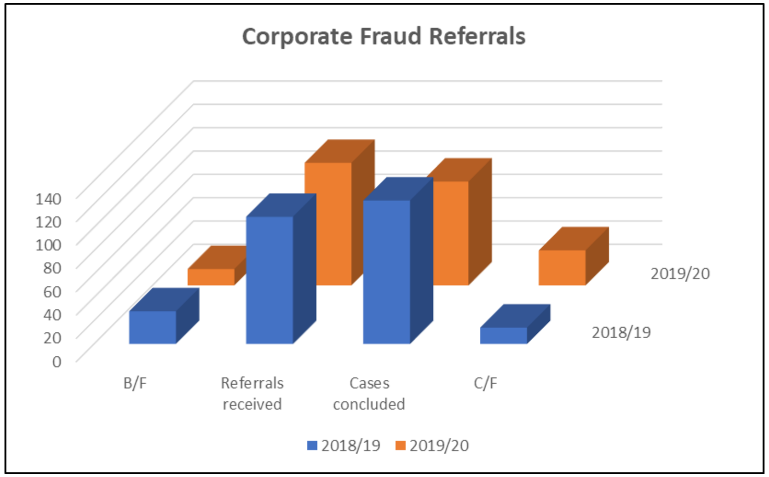
5.2 In 2017, a survey carried out by Experian estimated that the annual value of fraud across all sectors of the UK economy was £190 billion. This represents a massive increase on previous estimates from the now defunct National Fraud Authority (NFA), who in 2013, put the figure at £73 billion. The Experian survey estimates the level of fraud against the public sector as £40.3 billion, which again represents a significant increase in the previous estimate of £20.1 billion produced by the NFA.

5.3 It is difficult to place a monetary value on our anti-fraud activity during 2019/20, particularly in terms of our work 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 2019/20, the level of fraud/error investigated by CFT totalled just over £235,000 (£865,000 in 2018/19). This excludes application based fraud (Social Housing and Council Tax) which is covered in Section 6 of this report.

5.4 During the year CFT received information in respect of 105 potential irregularities (109 in 2018/19) from a variety of sources. Referrals can cover a wide range of issues, some of which lead to major investigations requiring significant resource, whilst others are referred to the directorates to deal with. The 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 regularly liaise with Legal Services to discuss the progress on those whistleblowing cases that are referred to us for investigation. We also receive information from various external sources, including members of the public, often using our dedicated Fraud Hotline. Additional referrals may arise when we raise awareness of a particular issue, or when we identify a specific issue through data matching exercises such as the National Fraud Initiative (NFI). During the year we received several referrals concerning potential breaches of the Staff Code of Conduct, which may not necessarily constitute fraud, but can nevertheless pose a potentially significant risk to the Council's reputation.

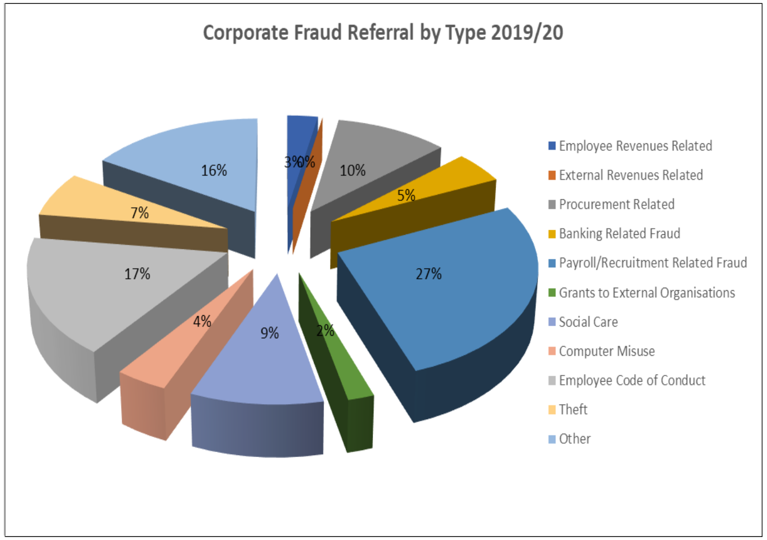
The table below summarises the reactive investigations activity of CFT (excluding Application Fraud) during the year:

| | 2018/19 | **2019/20** |
|---|---|---|
| Number of outstanding investigations at the beginning of the year | 28 | **14** |
| Number of fraud referrals received during the year | 109 | **105** |
| Number of cases concluded during the year | 123 | **89** |
| Number of investigations outstanding at the end of the year | 14 | **30** |



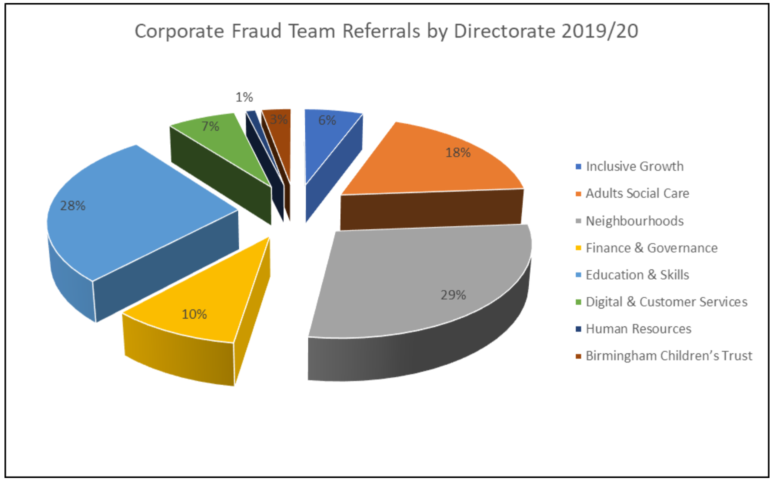

The referrals can be categorised by fraud type as follows:

| **FRAUD TYPE** | **N0. OF REFERRALS RECEIVED 2019/20** |
|---|---|
| Employee Revenues Related Fraud, i.e. Council Tax, rents, benefits | 3 |
| External Revenues Related, i.e. Business Rates | 0 |
| Procurement Related Fraud, i.e. purchasing, contracts, creditor payments | 11 |
| Banking Related Fraud, i.e. payment diversion, cheques | 5 |
| Payroll/Recruitment Related Fraud, i.e. salary overpayments, false absenteeism, overclaimed hours, false employment history | 28 |
| Grants to External Organisations, i.e. support through grants, loans | 2 |
| Social Care, i.e. Direct Payments | 10 |
| Computer Misuse, i.e. password sharing, unauthorised systems access | 4 |
| Employee Code of Conduct | 18 |
| Theft | 7 |
| Other | 17 |
| **Total** | **105** |



The referrals can be categorised by service area as follows:

| SERVICE AREA | No. OF REFERRALS |
|---|---|
| Inclusive Growth | 6 |
| Adults Social Care | 19 |
| Neighbourhoods | 30 |
| Finance & Governance | 10 |
| Education & Skills | 29 |
| Digital & Customer Services | 7 |
| Human Resources | 1 |
| Birmingham Children's Trust | 3 |
| **TOTAL** | **105** |




5.5 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, such as a particular proactive fraud exercise, fraud awareness initiative or corporate action. Some of the issues that are referred to us are not necessarily fraud, such as those involving Computer Misuse or breaches of the Employee Code of Conduct, but nonetheless, any procedural non-compliance can lead to fraud being committed and therefore we ensure these matters are investigated and dealt with appropriately.

5.6 We have previously reported on the high number of referrals relating to payroll overpayments. Failures to record absences or other events which affect pay (e.g. reduction in hours worked, accumulated long term sickness absence, maternity leave, contract termination etc.) last year gave rise to 17 salary overpayments of over £3,000 (30 in 2018/19), with a combined value of just over £100,000 (£250,000 in 2018/19). The circumstances surrounding each overpayment have been investigated to verify that the payments were not fraudulent and appropriate management action has been considered, particularly in respect of any Code of Conduct issues where it is established that the employee has failed in their duty to report the fact that they were being overpaid, or where managers have been negligent in their responsibilities. Although we have seen a reduction in the number of salary overpayment cases, it is still nonetheless disappointing that overpayments are still occurring, particularly when they arise as a result of managers failing to input a termination date when an employee leaves, as this means payments continuing after the employee has left and requires additional resource in raising a debt to recover the overpayment. One of our proactive exercises, looking at Dormant Activity on Systems by Current Employees, is helping to identify salary overpayments at an early stage (see 5.10).

5.7 Although there were no significant emerging trends arising during the year, we have seen a rise in the number of social care related frauds reported to us. These were mainly in respect of Direct Payments and were reported to us either by members of the public or Adults Social Care staff. The increase in reports from the latter may in part be due to the programme of Fraud Awareness that we delivered to Adults Social Care (see 4.3). We continue to work with the Directorate in ensuring that a more robust approach is taken in relation to tackling potential fraud in this area.

5.8 During the year we were advised of two significant frauds involving schools. Our investigation in the first case identified a significant misappropriation of funds by a school employee, who subsequently resigned. The matter was referred to the police by the school. The second case arose as a result of an audit at the school, which was undertaken at the request of the Head Teacher following concerns about the school's financial position. The subsequent investigation has identified significant misappropriation of school funds by a senior employee. Investigations are continuing to establish the extent of the loss.

5.9 A number of investigations were undertaken during the year in relation to the misuse of Disabled Parking Permits (Blue Badges) by City Council employees. These cases are brought to our attention by the Parking Enforcement Team whenever they identify an offender who is a City Council employee, during their investigation. In such cases, although the fraud may not have been directly associated to the employee's work, it still nevertheless raises concern about their honesty and integrity and breaching the Staff Code of Conduct.

5.10 We have continued to enhance our capability in the use of data analytics and now periodically run reports from some of the main financial systems to proactively identify potential fraud and error. Utilising a Corporate Fraud Risk Assessment developed in the previous year, we have carried out proactive exercises looking at various transactions from both the Payroll and Accounts Payable systems. In addition, we have looked at patterns of attendance on the Borer Time Recording system, Purchase Card Expenditure, Staff Car Parking, Activity on Systems by Leavers, and Dormant Activity on Systems by Current Employees. These projects not only help to detect fraud and error, but also highlight areas of poor practice and procedural non-compliance. 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.

5.11 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 reoccurrence 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 Council.

## 6. Application Fraud

6.1 The re-prioritisation of our work in recent years in response to legislative changes and to reflect those areas seen as high risk, has seen more resources being committed to tackling application based fraud relating to Social Housing and Council Tax, both of which are commonly acknowledged nationally as being high risk areas. The CIPFA Fraud & Corruption Tracker estimated that in 2018/19, the value of Social Housing fraud across the UK was £135.6m (£216.1m 2017/18) and Council Tax related fraud was £30.6m (£26.3m in 2017/18).

<u>Social Housing Fraud</u>

6.2 During the year we have continued to work closely with the Neighbourhoods Directorate, to investigate and remedy all aspects of social housing fraud, including illegal sub-letting, non-residency, false applications and Right to Buy. We also continue to provide support in the use of the data warehouse to help them verify details submitted on housing / homeless / Right to Buy applications. Our primary objectives have always been:

a) to recover social housing properties where investigations find that they are not being used as intended;

b) to protect the gateway for social housing by preventing fraudulent applications entering the system

6.3 We continue to receive a high number of notifications relating to potential social housing fraud. Through our investigations, we recovered 59 Council and Registered Provider properties (64 in 2018/19) with a combined indicative value of £5,487,000*. The properties recovered are returned to the housing stock to enable those with a genuine need for social housing to be provided with a home. We also cancelled 667 housing applications prior to letting (212 in 2018/19) with a combined indicative value of £2,161,080**. This increase has largely been achieved through our All City Risking (ACR) initiative which matches data contained in housing applications in near real time with other Council held data. This has been key to preventing scarce social housing being allocated to people that were not entitled. In addition, during the course of our work, we have located former tenants owing rent and have identified numerous anomalies in relation to Council Tax and Housing Benefit (see 6.9).

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

** Based on an indicative cost of £3,240 per application, source: Cabinet Office

6.4 A Prosecution & Sanctions Policy was approved by the Audit Committee in 2013 and legislation such as the Fraud Act 2006 and the Prevention of Social Housing Fraud Act 2013 can be used to prosecute offenders, whilst the Proceeds of Crime Act 2002 can be used to recover losses. Although prosecuting offenders and publicising successful convictions act as a valuable deterrent and helps raise awareness of the problem of tenancy fraud, it is a time-consuming process and is not always possible because of lack of evidence or documentation. We also support Housing in bringing civil proceedings to regain possession of properties where we have found evidence that the tenants are not using the property as their main home.

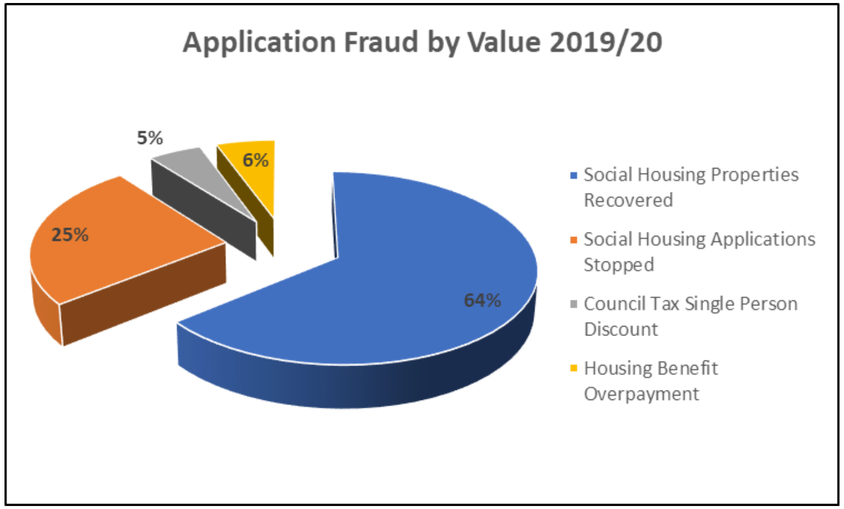
6.5 There are obvious social benefits in ensuring that only those with the greatest need are allocated social housing, but there is also a real financial saving from preventing and/or stopping social housing fraud, particularly in respect of providing temporary accommodation, and losing valuable housing stock through fraudulent Right to Buy applications. We will continue to work with the directorate to further develop work in this area.

<u>Council Tax Fraud</u>

6.6 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.

6.7 Fraud relating to the Council's Council Tax Reduction Scheme, and other Council Tax exemptions are investigated by the team. We have previously 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. We have been working with Revenues & Benefits to automate the administration and application of fines and penalties through their systems.

6.8 We continue to identify fraudulent claims for Single Person Discount, as well as for some of the various Council Tax exemptions, such as those given to students, people in residential care homes, and cases awaiting probate to be granted. As a result of this, a total of £429,144 of adjustments in Council Tax liabilities were identified (£559,534 in 2018/19). In addition, during the course of our work, we identified Housing Benefit overpayments totalling £473,794 (£858,202 in 2018/19). The reductions from previous years figures are in part down to the introduction of ACR, which allows us to identify issues sooner.




## 7. Intelligence

7.1 We continue to enhance our capability by developing our data warehouse facility with the addition of more data sets, not only with Council data, but also those of our partners and neighbouring authorities. This provides us with a sophisticated data resource to enhance our intelligence function in assisting our investigations. We have extended access to the facility to a variety of frontline services across the Council as well as to our external partners, including law enforcement agencies, where it provides a comprehensive means of verifying information to help tackle crime and disorder. In Housing it has been embedded into their verification checks on applications and tenancy records, helping to combat social housing fraud. It is also used by Trading Standards, Taxi-licensing and Schools Admissions. By extending access to the data warehouse, we have been able to reduce the reliance on our intelligence function to provide verification checks.

7.2 The development of ACR allows us to identify potential fraud and error within 24 hours. This has been particularly effective in identifying fraudulent claims for Council Tax Single Person Discounts and fraudulent housing applications. As indicated above, the process has reduced the amount of fraud or error that needs a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

## 8. National Fraud Initiative (NFI)

8.1 During the year we continued work on circa 40,000 matches that we received from the NFI in January 2019. The NFI data match is a bi-annual exercise undertaken by the Cabinet Office which matches a variety of data across public bodies for the purpose of identifying fraud and error. The Cabinet Office does not expect all of these to be checked and provide guidance on which they recommend are investigated. Whilst the matches may be an indicator of fraud or error, in the vast majority of cases, the match can be attributed to outdated or incorrect data, but nevertheless still needs to be checked and if necessary, records put right. Due to resourcing, we have to pass the majority of these matches to the relevant service area for them to review, particularly those relating to Housing Benefit, Residential Care Homes and Housing Tenancies. The exercise has so far identified fraud and error of over £500,000, mainly in respect of Housing Benefit.

8.2 We have continued to have discussions with the Cabinet Office to seek ways of improving NFI, particularly as we have developed the capability to run our own matches on a more regular basis. New matches for NFI 2020/21 are expected early next year.

## 9. Management of Staff

9.1 We still receive a high number of referrals which relate to problems which would not have occurred if staff had been more effectively managed, or work processes better controlled. Failure to have in place robust 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 and not allow a culture where fraud and corruption can flourish. 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.

9.2 We cannot stress enough the importance of staff following laid down policies and procedures. This helps the 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.

9.3 Managers throughout the City Council have a vital role in the prevention and detection of fraud and error. However, we still see examples of poor management practice in terms of procedural compliance as well as performing everyday duties such as recording and monitoring employee absence and attendance, inputting changes which affect employee's pay and checking and approving expenditure.

## 10. Impact of COVID-19

10.1 The impact of the COVID-19 restrictions were only becoming apparent at the end of the 2019/20 financial year, the period which this report covers. Nonetheless it was quickly realised that the imposition of the lockdown was going to severely impact on many aspects of our work, in particular the investigation of social housing fraud, which by its very nature, requires Investigators to spend a large proportion of their time visiting Council properties and interviewing tenants. Progressing Corporate Fraud investigations where it was necessary to interview employees or third parties, would also be similarly impacted.

10.2 In responding to this, and the need for all staff to work from home, we quickly re-positioned ourselves to undertake more desk based proactive work. Enquiries have had to be largely undertaken over the telephone, by e-mail or via Teams, which is not ideal but has still allowed us to progress cases, particularly those identified through ACR. Nevertheless, there will be a longer term impact in not being able to conclude some cases either through the legal or disciplinary process, which will become apparent in the performance data for 2020/21.

10.3 The pandemic, and the resultant response and support measures put in by the Government, are widely seen as an opportunity for individuals to commit fraud. The huge sums of financial support provided by the Government coupled with an urgent need to distribute funds through hastily arranged processes and systems, was always going to be seen as an ideal opportunity for fraudsters to take advantage. This has been borne out from the information that we have seen from law enforcement agencies across the country. However, we responded by having an early input into the planning for the distribution of the Government funding to support businesses and early indications are that the grant verification processes that we devised with

Revenues & Benefits, have largely prevented and deterred fraudulent applications for funding. We have nonetheless continued to work with both Revenues & Benefits and Inclusive Growth to investigate those applications which were deemed suspicious. We have also been proactive in issuing alerts of potential scams being perpetrated by fraudsters wishing to take advantage of the crisis.

## 11. Conclusions

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

11.2 As part of our investigatory work we continue to highlight weaknesses in systems and procedures and make recommendations to assist management in addressing these issues. We therefore expect management to act decisively and implement our recommendations and if necessary, take robust action against employees who chose not to comply.

11.3 Whilst it is difficult to assess the Council's overall exposure to the risk of fraud and error, 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.

11.4 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.

11.5 Our commitment to enhancing our data analytics capability is key to identifying and stopping fraud and error by proactively identifying anomalies for further investigation.

11.6 The expansion of our data warehouse continues to provide benefits not only in terms of detecting and preventing fraud and error, but also in the effective delivery of Council services and helping to tackle crime and disorder.

11.7 We will continue to work to raise awareness of general and specific risks of fraud, and to ensure that everyone knows how to report their concerns.

**Neil Farquharson**
**Group Auditor – Corporate Fraud Team**
**Birmingham Audit**

Grant Thornton
An instinct for growth™

# Audit Progress Report and Sector Update

Birmingham City Council
Year ending 31 March 2020

September 2020

# Contents

# Introduction

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## This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

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 September 2020 – Financial Statements

## Financial Statements Audit

As previously reported to you, we undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your financial statements in July, in advance of receipt of a set of draft financial statements.

In March we issued a detailed Audit Plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements. We subsequently issued an addendum to our Audit Plan setting out a new significant financial statement risk in relation to Covid-19. Both of these documents were communicated to those charged with governance in June 2020.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2020.

On the next page we set out a summary of the progress made to date on the audit of the Council's Financial Statements.

## Impact of Covid-19

### Changes to reporting requirements:

- The date by which principal authority accounts were due to be published was extended to 31 August 2020. Birmingham City Council published their accounts on 28 August 2020. For principal authorities, this means that the whole chain of publication requirements has been amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred.

### Impact on working arrangements:

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices. Our Birmingham office is now in the process of re-opening, but your audit team will continue to work from home for most of their time.
- We will therefore be working remotely during your accounts audit. Although there are some audit tasks which are better undertaken in person, we expect to be able to complete the entirety of the audit remotely. This is however likely to make the audit process longer.
- We continue to work closely with your finance team to make this new way of working as efficient as possible. We have been in regular communication since March this year, including weekly updates with key members of staff.

### Impact on accounts and audit opinions:

There are a number of key issues which your finance team have considered as part of closedown and accounts production:

- The potential impact on reserves and financial health and whether the Council needed to provide additional disclosures that draw attention to any Material Uncertainty around Going Concern (could impact on our VfM conclusion).
- Key considerations in respect of service continuity and disaster planning arrangements (could impact on our VfM conclusion).
- The valuations of Property, Plant & Equipment and the assumptions made by valuers, particularly in respect of carrying value to current value assessment, and any Material Uncertainties in the year end valuations.
- The impact on collectability of debt and assumptions made in bad debt provisions.
- The impact on post-balance sheets events. The consequences of the virus post 31 March 2020 are generally non-adjusting post balance sheet events, but consideration has been given to the level of disclosure needed.
- Disclosure of the impact in the Annual Report, as well as in the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.

# Progress at September 2020 – Financial Statements (cont'd)

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **The revenue cycle includes fraudulent transactions**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited; and<br>• the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.<br>**Therefore we do not consider this to be a significant risk for Birmingham City Council.**<br>We will complete testing of a sample of the Council's grant revenues and other revenues. This testing is currently in progress.<br>We have no issues to report at the time of writing this update. |
| **Management over-ride of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determine the criteria for selecting high risk unusual journals;<br>At the time of writing this update, we are in the process of:<br>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;<br>• gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and<br>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>We have no issues to report at the time of writing this update. |

# Progress at September 2020 – Financial Statements (cont'd)

## Risks identified in our Audit Plan

### Valuation of land and buildings

The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.

Additionally, where a rolling programme is used, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- communicated with the valuer to confirm the basis on which the valuation was carried out;

At the time of writing this update, we are in the process of:

- challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We have no issues to report at the time of writing this update.

# Progress at September 2020 – Financial Statements (cont'd)

## Risks identified in our Audit Plan

### Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

## Commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuations;
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

At the time of writing this update, we are in the process of:

- completing procedures to gain assurance over the experience losses included in the actuarial valuation of the pension fund liability;
- considering the impact of national developments in relation to the McCloud and Goodwin legal cases; and

We are also awaiting confirmation of the outcome of the work performed by the audit team of the West Midlands Pension Fund.

We have no issues to report at the time of writing this update.

# Progress at September 2020 – Financial Statements (cont'd)

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of equal pay liability**<br>Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.<br>We identified the valuation of the equal pay provision as a a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. | We have:<br>• updated our understanding of management's process and controls in place to estimate the equal pay provision;<br>• reviewed the assumptions on which the estimate was based;<br>• considered events or conditions that could have changed the basis of estimation;<br>• confirmed that the estimate has been determined and recognised in accordance with accounting standards; and<br>• determined how management have assessed the estimation uncertainty.<br><br>At the time of writing this update, we are in the process of:<br>• reperforming the calculation of the estimate on a sample basis;<br>• considering the impact of any subsequent transactions or events.<br><br>We have no issues to report at the time of writing this update. |
| **Group audit risks**<br>We have not identified any significant risks of misstatement of the group financial statements outside of the transactions and balances recorded by the Council.<br>We anticipated that transactions and balances that are material to the group accounts might be present in the financial statements of Birmingham Children's Trust CIC, National Exhibition Centre (Developments) Plc and Acivico Limited. | We have requested specific procedures be performed by Crowe UK LLP, the auditor of Birmingham Children's Trust CIC, to inform our audit opinion. We have been liaising with Crowe throughout the course of their audit and are not aware of any issues arising that would be significant to the financial statements of the Council.<br>Work on other material balances within the consolidation is planned to be performed by the Council's audit team, but this work has not yet commenced.<br><br>We have no issues to report at the time of writing this update. |

# Progress at September 2020 – Value for Money

## Value for Money 2019/20

The scope of our work is set out in the guidance issued by the National Audit Office. 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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We will report our work in the Audit Findings Report and aim to give our Value for Money Conclusion by November 2020.

On the next page we set out a summary of the progress made to date on our work for the Value for Money Conclusion, for each of the 5 significant risks that we identified as part of our planning procedures. In general, this work is not as far advanced as we had planned, due to delays in meetings being organised as a result of a combination of Covid-19 pressures, and annual leave commitments of the Council's staff.

The findings and conclusions from these reviews will feed into our overall VFM Conclusion for the 2019/20 year on the adequacy of the Council's overall arrangements to secure value for money.

Our Value for Money risk assessment is an ongoing process which will continue throughout the period of our audit. To date, we have not identified any additional significant risks since the completion of our planning procedures, however we acknowledge that Covid-19 has changed the nature of the risks that we had identified to some extent.

## Value for Money 2020/21 onwards

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020.

We will present the implications of the new Code to members once the NAO has finalised its formal guidance to auditors.

# Progress at September 2020 – Value for Money (cont’d)

## Council resilience and financial sustainability

### Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the identified weaknesses that were the subject of Statutory Recommendations in March 2019;
- Non-delivery of savings plans during 2019/20;
- Inadequate reserve levels, non-prudent use of reserves, and non-transparent financial reporting in relation to reserve levels;
- Changes in key staff negatively impacting governance and oversight arrangements;
- Insufficient progress made to address the findings of CIPFA’s Financial Management review in 2019;
- The Council’s financial plan for the 2020/21 year and beyond fails to address the combined savings and budget pressure risks, or is based on unrealistic assumptions; and
- The Council failed to assess and mitigate the potential impact of Covid-19 in a timely manner.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

### Planned approach & progress

We plan to achieve the objectives of our review by:

- Obtaining an understanding of the work performed by the Council to address the various external recommendations from previous years;
- Reviewing the Council’s in-year financial monitoring reports, as well as the year-end outturn report to Cabinet;
- Reviewing the Council’s budget for the 2020/21 year, and the 2020-24 Plan, and the assumptions underpinning these;
- Considering the work that the Council has done to assess and mitigate the impact of Covid-19 on its financial planning and resilience; and
- Considering the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisors for Financial Resilience and Good Governance and Culture Change.

This work is ongoing. We have held an initial meeting with management, and we have been provided with additional information following the discussions held.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk but we do note the improvements that the Council has been making in this area.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **GT planned timelines** | **2 June** | **Late June** | | **Early August** | **Late August** | **Late August** | |
| **Revised timelines** | **2 June** | **13 July** | **Fieldwork *(ongoing)*** | *Sept TBC* | *Oct TBC* | *Oct TBC* | **Subsequent Events Review** |
| | Initial information requests | Initial meeting | | Exit meeting | Draft report issued | Management responses received | |

# Progress at September 2020 – Value for Money (cont'd)

## Financial impact of the Commonwealth Games

### Objectives

Our review is planned to focus on the following potential risks:

- The Council's governance structure and arrangements in place to support the delivery of the Commonwealth Games are not adequate;
- The Council fails to secure funding from games partners in order to mitigate the financial impact of the Commonwealth Games; and
- The cost to the Council of delivering the Commonwealth Games is higher than expected, putting increased financial pressure on the Council.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

### Planned approach & progress

We plan to achieve the objectives of our review by:

- Reviewing the latest governance structure and supporting arrangements, and assessing their appropriateness;
- Updating our understanding of the funding arrangements for the Games, and how the Council is identifying, managing and monitoring any risks relating to funding arrangements; and
- Reviewing monitoring reports and other relevant documents to assess how the Council is identifying, managing and monitoring any risks relating to the financial impact of the Games.

Our work will consider and formally conclude upon the adequacy of the Council's arrangements as they applied during the audit year of 2019-20. We will also reflect on progress the Council has made and new arrangements it has put in place since 31 March.

This work is ongoing at the time of writing this update. We held an initial meeting with management on 2 July and received supporting documentation on 29 July. We will also meet with the recently appointed Project Director for the Commonwealth Games in early October.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **GT planned timelines** | **16 June** | **Early July** | | **Early August** | **Late August** | **Late August** | |
| **Revised timelines** | **16 June** | **2 July** | **Fieldwork *(ongoing)*** | *Oct TBC* | *Nov TBC* | *Nov TBC* | **Subsequent Events Review** |
| | Initial information requests | Initial meeting | | Exit meeting | Draft report issued | Management responses received | |

# Progress at September 2020 – Value for Money (cont'd)

## Contractual arrangements relating to the Highways PFI scheme

### Objectives

Our review is planned to focus on the following potential risks:

- Contractual disputes with Amey LG have a significant financial impact on the Council's financial sustainability;
- The Council fails to identify, manage and monitor risks arising as a result of the settlement agreement reached in June 2019;
- There were weaknesses in the procurement process for the short-term element of the highways infrastructure contract, for the 15 months from April 2020 to June 2021; and
- There were weaknesses in preparations for the procurement process for the long-term element of the highways infrastructure contract, for the remaining 14 years of the PFI contract from July 2021.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

### Planned approach & progress

We plan to achieve the objectives of our review by:

- Obtaining an understanding of the settlement agreement, the instalments due to date, and future instalments;
- Establishing how the Council is identifying, managing and monitoring risks relating to the PFI scheme, and considering actions taken to mitigate these;
- Understanding the procurement process undertaken by the Council during the 2019/20 financial year, and considering its appropriateness; and
- Considering the progress made during the 2019/20 financial year in preparation for the procurement process for the remainder of the highways infrastructure contract, and considering the appropriateness of this.

This work is ongoing at the time of writing this update. We recently held an initial meeting with management, and are in the process of determining what follow-up work needs to be performed and what documentation we require.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **GT planned timelines** | 2 June | Late June | | Early August | Late August | Late August | |
| **Revised timelines** | 2 June | 3 September | | *Oct TBC* | *Nov TBC* | *Nov TBC* | |
| | Initial information requests | Initial meeting | **Fieldwork *(ongoing)*** | Exit meeting | Draft report issued | Management responses received | **Subsequent Events Review** |

# Progress at September 2020 – Value for Money (cont'd)

## Waste service continuity and industrial relations

### Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the identified weaknesses that were the subject of statutory recommendations in March 2019;
- Insufficient progress having been made following receipt of the outcome of the independent review of the Waste Service;
- Following the end of the Memorandum of Understanding in November 2019, progress to improve industrial relations halted; and
- Further waste service disputes occur, leading to service disruption.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

### Planned approach & progress

We plan to achieve the objectives of our review by:

- Obtaining an understanding of the work performed by the Council to address the Statutory Recommendations from March 2019;
- Reviewing the outcome of the independent review, and considering the actions taken by the Council following its receipt;
- Understanding the progress made during the 2019/20 financial year, and the current status of industrial relations; and
- Considering the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisor for Waste Management and Industrial Relations.

This work is ongoing at the time of writing this update. We have held an initial meeting with management, and we have been provided with additional information following the discussions held. A follow up meeting was arranged for 6 August but was cancelled due to management's annual leave commitments and has been rearranged for 1 October.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **GT planned timelines** | 16 June | Early July | Fieldwork *(ongoing)* | Early August | Late August | Late August | Subsequent Events Review |
| **Revised timelines** | 16 June | 2 July | | *1 Oct* | *Oct TBC* | *Nov TBC* | |
| | Initial information requests | Initial meeting | | Exit meeting | Draft report issued | Management responses received | |

# Progress at September 2020 – Value for Money (cont'd)

## Contract monitoring and management

### Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the significant weaknesses identified by Birmingham Audit; and
- The issues identified by Birmingham Audit may be indicative of wider contract management and monitoring issues.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

### Planned approach & progress

We plan to achieve the objectives of our review by:

- Considering the work done by relevant directorates to address the findings raised by Birmingham Audit; and
- Considering the potential wider impacts of the weaknesses identified by Birmingham Audit, and confirming whether any similar issues have been identified elsewhere in the Council.

This work is ongoing at the time of writing this update. We held an initial meeting with management on 24 August, and have subsequently discussed this risk with Birmingham Audit on 9 September. We are awaiting information requested during these meetings in order to determine what further work is required to address the risk identified.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **GT planned timelines** | **2 June** | **Late June** | | **Early August** | **Late August** | **Late August** | |
| **Revised timelines** | **2 June** | **24 August** | **Fieldwork *(ongoing)*** | *Oct TBC* | *Nov TBC* | *Nov TBC* | **Subsequent Events Review** |
| | Initial information requests | Initial meeting | | Exit meeting | Draft report issued | Management responses received | |

# Audit Deliverables

| 2019/20 Deliverables | Planned Date | Status |
|---|---|---|
| **Fee Letter**<br>Confirming audit fee for 2019/20. | April 2019 | Complete |
| **Audit Plan**<br>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements. | March 2020 | Complete |
| **Interim Audit Findings**<br>We will keep the Audit Committee updated on the progress of our audit during the year. | July & September 2020 | Included in this report |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the November Audit Committee. | November 2020 | Not yet due |
| **Auditors Report**<br>This is the opinion on your financial statement, annual governance statement and value for money conclusion. | November 2020 | Not yet due |
| **Annual Audit Letter**<br>This letter communicates the key issues arising from our work. | December 2020 | Not yet due |

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

# The Redmond Review

## Scope and Purpose

### Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

### Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

### Publication

- 8 September 2020

# The Redmond Review - The system is not working


The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

# The Redmond Review – Sir Tony's Recommendations

## A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA;
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements;
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year;
- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts;
- recognition of the **role of authorities in improving governance and reporting**; and
- development of **audited and reconciled accounts summaries.**

# The Redmond Review - Grant Thornton's View

**Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.**

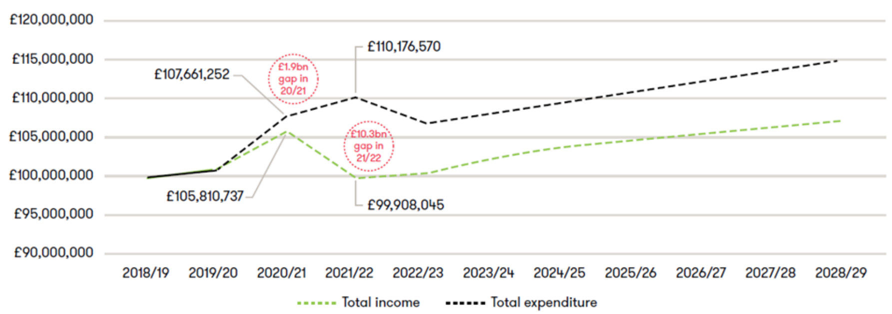
# Covid-19 update

## Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

**Local Authority Income and Expenditure (England) 2018/19 to 2028/29**




Source: Grant Thornton/CIPFA Financial Foresight

Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalising footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

## Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

# Covid-19 update (cont'd)

### Lessons Learned (Cont'd)

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Many councils have recognised the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to priortise resources and activity in the right way and at the right time to achieve the right outcomes.

### The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritised scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organisation. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

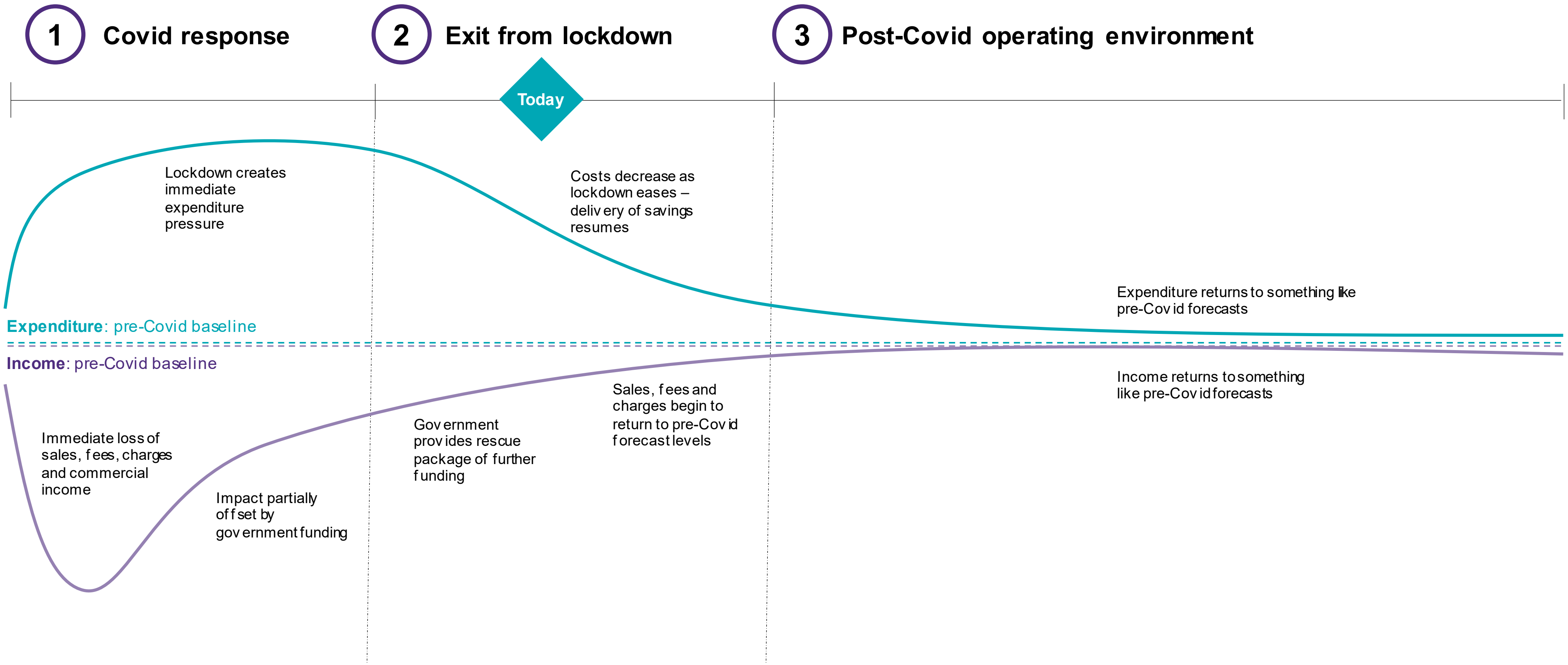
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a manageable level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

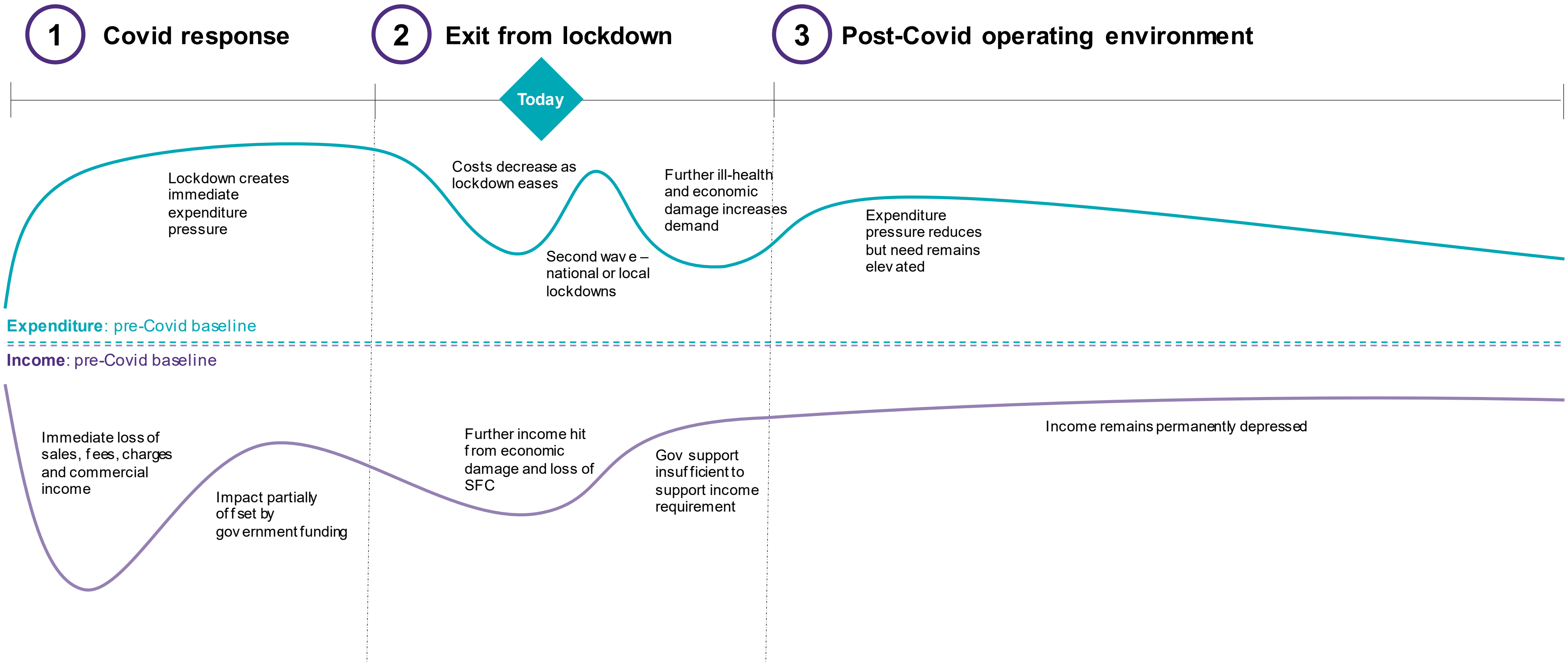
# Covid-19 – Example scenarios

## Scenario 1 – swift return to normality



# Covid-19 – Example scenarios (cont'd)

## Scenario 2 – second wave and ongoing disruption



# Covid-19 – Scenarios and hypotheses

## Local authority areas in 12-24 months?

| Theme | Reasonable worst case | Reasonable best case |
| --- | --- | --- |
| **People & community** | • Multiple lockdowns and ongoing disruption<br>• Community dependency and expectation of sustained response<br>• Turbulence and activism within the VCS<br>• Socio-economic inequality is compounded<br>• Failure of leisure and cultural services | • Smooth exit from lockdown to a “new normal”<br>• Community mobilisation is channelled into ongoing resilience<br>• Strengthened VCS relationships and focus<br>• Systemic response to inequality is accelerated<br>• Leisure and cultural services adapted to social distancing |
| **Business & economy** | • 16% reduction in GVA for 2020 based on OBR reference scenario<br>• Slow / uneven economic recovery and “long tail” on unemployment<br>• Central gov / BEIS focus investment on areas furthest behind<br>• Loss of tourist & student spend causes unmitigated damage<br>• 'V' shaped recovery results in 2-3 year recovery period | • 5-10% reduction in GVA<br>• Rapid economic recovery with employment levels close behind<br>• Central government “back winners” with investment<br>• Adaptation allows resumption of tourist and student economy<br>• Business base is weighted towards growth sectors |
| **Health & wellbeing** | • Increased demand and escalating need due to fallout from lockdown<br>• Newly-vulnerable cohorts place strain on the system<br>• Unit costs increase further as markets deteriorate and providers fail<br>• SEND transport unable to adapt to social distancing<br>• Imposed disruption of care system | • Positive lifestyle changes and attitudes to care reduce demand<br>• Needs of newly vulnerable cohorts met through new service models<br>• New investment in prevention and market-shaping manage costs<br>• New ways of working leading to stronger staff retention<br>• Locally-led reform of health and care system |
| **Political & regulatory** | • Local government side-lined by a centralised national recovery effort<br>• Unfunded burdens (e.g. enforcement and contact-tracing)<br>• Councils in the firing line for mismanaging recovery | • Local government empowered as leaders of place-based recovery<br>• Devolution and empowerment of localities<br>• Councils at the forefront of civic and democratic renewal |
| **Environment** | • Opportunity missed to capture and sustain environmental benefits<br>• The end of the high street / town centres<br>• Emissions and air quality worsened by avoidance of public transport<br>• Capital programmes stuck | • Ability to invest in transport modal shift and green infrastructure<br>• Changed working patterns rejuvenate town centres<br>• Sustained impact on emissions due to new behaviours<br>• New, shovel-ready infrastructure programmes |
| **Organisational** | • Inadequate funding forces fiscal constraint<br>• Working practices return to status quo – increased operating costs<br>• Imposed structural change within the place<br>• Austerity 2<br>• Commercial portfolio becomes a liability | • Adequate funding enables a programme of targeted investment<br>• Learning and adaptation to new operating environment<br>• Energised system-wide collaboration and reform<br>• Fiscal reform and civic renewal<br>• Commercial portfolio reshaped for economic and social gain |

# Covid-19 – What strategy is needed in response?

*From response to recovery*

## Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

*Mitigating the worst case*

## Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

*Steering towards the best case*

## Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

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# BIRMINGHAM CITY COUNCIL

## AUDIT COMMITTEE

## 29 SEPTEMBER 2020

## SCHEDULE OF OUTSTANDING MINUTES

| MINUTE NO./DATE | SUBJECT MATTER | COMMENTS |
|---|---|---|
| 193<br>28/01/2020 | **Travel Assist**<br><br>The Director of Education & Skills to provide an update report to Members of the Committee following outcomes of investigations including DBS checks queries**.** | Report due in 26 Jan 2021. |
| 223<br>28/07/2020 | **Audit Findings Report Recommendations – Progress Report**<br><br>Additional recommendation added following discussions.<br><br>iii) A report to be provided to the Committee on retrospective purchase orders and Directorates not complying with procedures. | Report due 20 October 2020. |
| 226<br>28/07/2020 | **Process for the exit of Senior Officers**<br><br>Additional recommendation added following discussions.<br><br>ii) Agreed that the Chair of the Audit Committee write to the Chair of the JNC Panel recommending a standing item to be placed onto the JNC Panel agenda around regular updates of senior officers' cases. An Annual report on senior officers claims to be shared with both the JNC Panel and Audit Committee. | The Chair of the Committee to update. |
| 227<br>28/07/2020 | **Other urgent business - (Travel Assist)**<br><br>A written response to be provided by Officers to the Committee related to the avoidance of deed poll changes via DBS checks. | Ongoing update.<br><br>Interim City Solicitor & Director of Human Resources. |