

# **BIRMINGHAM CITY COUNCIL**

## **AUDIT COMMITTEE**

**TUESDAY, 18 JUNE 2019 AT 14:00 HOURS**  
**IN COMMITTEE ROOM 2, COUNCIL HOUSE, VICTORIA SQUARE,**  
**BIRMINGHAM, B1 1BB**

## **A G E N D A**

### **1 NOTICE OF RECORDING/WEBCAST**

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

### **2 APOLOGIES**

To receive any apologies.

### **3 APPOINTMENT OF AUDIT COMMITTEE, CHAIR, DEPUTY CHAIR AND MEMBERS**

(I) To note the resolution of the City Council appointing the Committee, Chair and Members to serve on the Committee for the period ending with the Annual Meeting of the Council in 2019.

Labour Group: Councillors Safia Akhtar, Marje Bridle, Fred Grindrod (Chair), Josh Jones and Hendrina Quinnen.  
Conservative Group: Councillors Meirion Jenkins and Suzanne Webb.  
Liberal Democrat Group: Councillor Paul Tilsley.

(ii) To elect a Deputy Chair, for the purpose of substitution for the Chair if absent, for the period ending with the Annual Meeting of the Council in 2019.

### **4 AUDIT COMMITTEE - FUNCTIONS**

To note the Committee's functions as set out in the attached schedule.

5 **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.

**7 - 22**

6 **PUBLIC MINUTES - AUDIT COMMITTEE 26 MARCH 2019**

To confirm the Public part of the Minutes.

**23 - 48**

7 **OMBUDSMAN REPORT - COMPLAINT ABOUT POST 19 EDUCATION TRANSPORT**

Report of the Chief Executive and the Director, Education and Skills

**49 - 66**

8 **2018/19 ANNUAL GOVERNANCE STATEMENT**

Report of the Chief Finance Officer

**67 - 114**

9 **BIRMINGHAM AUDIT ANNUAL REPORT 2018/19**

Report of the Assistant Director - Audit & Risk Management

**115 - 336**

10 **DRAFT STATEMENT OF ACCOUNTS 2018/19**

Report of the Chief Finance officer

**337 - 372**

11 **UPDATED EXTERNAL AUDIT PLAN**

Report of the External Auditor

**373 - 376**

12 **EQUAL PAY UPDATE - PUBLIC**

Report of the Corporate Director - Finance and Governance.  
This report was marked *To Follow*

13 **AUDIT COMMITTEE: DATES AND TIMES OF MEETINGS FOR 2019/20**

To approve the schedule of dates for the Committee's meetings during 2019/20.

The Chairman proposes that the Committee meets on the following Tuesdays at 1400 hours in Committee Room 6, Council House.

2019: 30 July, 24 September, 19 November. 2020: 28 January and 24 March.

14 **SCHEDULE OF OUTSTANDING MINUTES 2019**

The Committee to note the Schedule of Outstanding Minutes.

15 **OTHER URGENT BUSINESS**

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

16 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

17 **EXCLUSION OF THE PUBLIC**

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

Exempt Paragraph 3

**P R I V A T E   A G E N D A**

18 **PRIVATE MINUTES - AUDIT COMMITTEE 26 MARCH 2019**

Item Description

19 **EQUAL PAY UPDATE - PRIVATE**

Item Description

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

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





## AUDIT COMMITTEE

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.

### Functions

- (a) To review the City Council's Annual Accounts and Annual Governance Statement (AGS). This will include advising on significant changes throughout the year to financial regulations and policies.
- (b) To monitor progress in addressing control or governance issues identified in the AGS.
- (c) To review and provide the executive with assurance on the embedding and maintenance of an effective system of corporate governance including the risk management framework and the associated control environment.
- (d) Responsibilities as set out in the terms of reference in relation to external audit including reviewing the planned programme of work, noting fees and terms of engagement of the external auditor, considering and advising the executive on responses to audit management letters, reports and investigations and reviewing whether agreed external audit or inspection recommendations have been implemented as timetabled.
- (e) To review and make recommendations to the executive regarding the effectiveness of internal audit to include ensuring the internal audit function is adequately resourced, to review its strategy, receive, challenge and approve its annual plan and monitor its delivery and to review significant audit findings and monitor progress by managers in implementing agreed recommendations.
- (f) To consider and make recommendations to the executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
- (g) To consider reports from the Ombudsman and monitor management response in relation to these.
- (h) To consider, approve or make recommendations in respect of any other matters at the request of the Council.



# BIRMINGHAM CITY COUNCIL

<b>AUDIT COMMITTEE</b> <b>26 MARCH 2019</b>
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**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON  
TUESDAY, 26 MARCH 2019 AT 1400 HOURS IN COMMITTEE  
ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

**PRESENT:-**

Councillor O'Shea in the Chair;

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

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**NOTICE OF RECORDING/WEBCAST**

- 94 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](http://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 INTERESTS**

- 95 Councillor Paul Tilsley declared non-pecuniary interests as a nominee on the Board of Birmingham Airport – (Chairman of Audit Committee) and a trustee on the Board of Millennium Point Property Limited - (Chairman of Audit Committee).

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**MINUTES**

- 96 **RESOLVED:-**

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

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**MATTER ARISING FROM THE LAST MEETING**

**HOUSING BENEFITS OVERPAYMENTS**

- 97 Craig Price, Principal Group Auditor, reported on the recovery of housing benefit overpayments from Universal Credit and confirmed that they were allowed to recover these payments by making a third party debt application to the Department of Works and Pensions. However, they were only allowed to put pre-debts against Universal Credit and that the order of the debts were made out by legislation and housing benefit overpayments.

He confirmed that housing benefit overpayments were 19 out of 23 on the list of priority and the maximum recovery amount of third party debt was 40% of the allowance, and therefore, could take a substantial amount of time for the recovery of debt of overpayments returning to the City Council. He added that a great many of the Council's debt could be sitting in a pending state until they moved up the list of priority.

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### **AUDIT COMMITTEE – IMPROVEMENT TO WORKING PRACTICE**

- 98 A general discussion ensued relating to Audit Committee, whereby elected members made suggestions, which was welcomed by the Chair on how the workings of the Committee could be improved which included the following:-

- The Committee to be made aware earlier of relevant information in order to identify potential risks before escalation.
- Reports submitted to Committee – track actions – introduce a record of Outstanding Minutes (able to refer to issues not completed – time line).
- One coherent document that picks up on system failings of the local authority – indicates accountability/decision making/who is responsible for delivery of change and resolution.
- Concern was raised regarding additional meetings given the tight resources of the Committee.

The Chair confirmed that he was not averse to discuss with the Leader and Chief Legal Officer the introduction of an independent member to the Committee, and to introduce an additional Audit Committee meeting between March and June in future municipal years where there were no elections, as there was such a gap especially where there was more than sufficient items to be discussed to justify the additional meeting.

He confirmed that it had been a learning curve for him chairing the Committee this year, however during the year, they had considered items raised by members of the Committee which had been of particular risk.

The Chair thanked members for their comments.

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### **EARLY YEARS HEALTH AND WELLBEING RISK**

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

(See document No. 1)

Sarah Sinclair, Interim Assistant Director, Education and Skills Directorate, presented the report. She detailed the key issues, key controls and mitigations to improve in moving forward.

A lengthy discussion ensued, during which the following comments and responses were captured:-

The Chair expressed disbelief that the contract had been agreed without the intelligence client function in place. He referred to the £10m savings that were to be made and already the £4m that were at risk and whether the VAT payments would be mitigated by staff transferring to the NHS or would this continue to be a cost to the Council, and if the staff that had set up the contract was still employed by the Council.

Sarah Sinclair confirmed that the VAT payments would not be an ongoing cost to the Council as it was only while staff was on secondment to the NHS and other partners, and once they had transferred, the costs would cease.

She reported that the cost of the VAT had been approximately just under £800,000 and originally there was a loss of £4m savings plus £800,000 in the first year.

She confirmed that she was currently working with finance to re-profile the £10m savings originally what was expected to be saved from the contract in real terms for the remaining 4 years. At the moment the information was not available as they were still in the process of completing the work.

She confirmed that they were working with the Trust in order to assess whether they could recoup any further savings from the contract by doing things differently.

She reported that the people that had established the contract were no longer employed by the Council and had found employment elsewhere.

She reported that when she had been made aware of the position in May it very much highlighted the need for consistency, continuity, information and knowledge otherwise when things were passed from team to team, it was somewhat difficult to keep an overall grip and understanding of the issues that they had had to face.

Members expressed very deep concerns relating to the failures of the contract and how this impacted on the young, vulnerable citizens of the City which was totally unacceptable.

They were in disbelief that a contract of this significant amount, had been agreed without the setting out of the basics which included; usage of buildings, the expectation of outcomes how they were measured and by whom, the system failures due to the inappropriate processes (checks and balances) that

were not in place, the fact that it was a controversial contract was even more concerning that they had got something so very wrong, and also, how this affected the credibility of the organisation, given the fact, that partners would be aware of the shoddiness of the contract.

Members were of the insistence that there should not be a repeat of this type of report again and that there should be a detailed review to determine the failings leading to this result. Suggestions were put forward detailing the various processes that should now be put in place to support the contract in moving forward which included careful monitoring by the committee.

Following a discussion relating to the monitoring of the contract, the Chair although agreed for a further update to be submitted to Audit Committee, however, believed that it was within the remit of Overview and Scrutiny where it should be considered in more detail.

At this juncture, Dawn Baxendale, Chief Executive Officer, confirmed that on a quarterly basis, as part of the internal audit process, Audit Committee should be receiving updated information on contracts across the board in order to allow the Committee to take a view on whether they wanted to delve into something specific or not. She added that in this case, it would be one of the items that would be followed through as part of the normal audit work, albeit this did not preclude Scrutiny taking its responsibility for individual contracts.

The Chair highlighted that if issues were not being raised satisfactorily through the officer chain, as he had done previously, was happy to take them on board and raise them accordingly, adding that the quarterly reports on contracts would be fitted into the agenda for the forthcoming year.

Clive Heaphy, Strategic Director, Finance reported that he shared the Committee's concerns with regard to the report and other issues that were being brought to the Committee's attention during the year.

He confirmed that part of his role together with Dawn Baxendale, Chief Executive, was to ensure that where there had been wrongdoings in the past and where tasks had not been done properly, these issues were surfaced and dealt with, adding that unfortunately more issues would surface, and that they should be highlighted rather than kept hidden at this moment in time.

He further confirmed that each time an issue was brought to attention an audit report was commissioned in order that important lessons were learnt and errors were not repeated in the future.

He highlighted the importance of sharing the lessons learnt and taking them forward and also sharing the knowledge with elected members in order that they would be able to see what the organisation was doing better. He further highlighted the importance of ensuring that there were the right people with the right skills in place which meant a great deal of work with regard to culture change, behaviours, skill sets and the way people work together in the organisation, all of which was quite critical to provide the assurance members' required.

He reiterated the importance of ensuring that the appropriate investigations were undertaken and members were made aware of them and that all of these issues were rooted out sooner rather than later. He stated that it was important that the organisation aimed for excellence in the way that it works now and in the future in order that these issues were never repeated again.

The Chair agreed that it was most important that the Committee was kept updated with any arising historical concerns however it was important any new concerns e.g., contracts should be caught before moving forward.

Clive confirmed that procurement and contract management now came under his remit and subsequently explained in detail his expectation of how it should work in the future with procurement, commissioning teams and management teams all working together in a more coherent way.

He added that part of the contract management teams' role was to support the services in their day to day operations, but also to be a proper centre of excellence that would be promoting good behaviour and going in there on a regular basis and reviewing contracts.

Where contracts would be seen to be going off beam, they would be brought to the Committee's attention on a regular basis, highlighting that this was his commitment to the organisation in taking over these services.

Sarah briefly explained the help and assistance she had received from internal audit when taking on her role. She highlighted the importance of having the right team in place and added that there was the willingness there in order to support the contract in moving forward.

The Chair concluded by thanking Sarah for attending the meeting and presenting the report.

99

**RESOLVED:-**

That the comments and report be noted.

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**CORPORATE RISK REGISTER UPDATE**

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

(See document No. 2)

Sarah Dunlavey, Assistant Director, Audit & Risk Management, explained that Early Years and Travel Assist had been on the risk register since July.

She further explained that due to the issues relating to the format of the corporate risk register, the format would be changing to include the monitoring of actions taken. She stated that they would be asking risk owners in moving

forward to list the actions that will be taking (the current risk level to the target risk level) and then assessing each of those actions which the Committee will be able to challenge.

A discussion ensued, during which the following comments and responses were captured:-

In response to increasing the level of Risk 32, Sarah agreed to discuss with the risk owner the revising of the risk level.

Clive Heaphy, Strategic Director, Finance, reported on the use of reserves and confirmed that they could only be used for specific purposes and that they had not released any in previous years and were not planning to use any in future. He added that they were being held to smooth out the PFI contract and subsequently explained how this worked.

He reported on the practice the authority had adopted in the past regarding the level of internal borrowing between different reserves and stated that he would be taking this action away from the organisation, as it was not the correct thing to do. Nevertheless, confirmed that these monies were built into the long-term financial plans to be repatriated to where they belong in order that the reserves were at the required levels.

He stated that in the long-term whether there would be sufficient money in those reserves remained an issue and detailed the various areas of negotiations that this was linked into, confirming however that the aim remained the same, which was to ensure that the citizens of Birmingham get the investment in their road network that was promised at a cost no greater than the cost that was assumed, which he highlighted was a challenge but was confident that the money would be there when required.

Clive reported on Risk 7 and confirmed that they were putting in place an industrial unit internally to ensure the capacity and knowledge was there to handle industrial disputes properly. He highlighted that in moving forward, it was important that there was in place a team that had the right skills and capacity to support the council which he confirmed was not there at the moment.

Sarah reported on Risk 29 (balanced budget) and confirmed that the reduced risk was due to the much more positive monitoring position for the current year and therefore, the impact remained at high, but the likelihood of it materialising had been reduced based on the current position in the financial cycle.

The Chair concluded by thanking Sarah for presenting.

100

**RESOLVED:-**

- i) That, having reviewed the Corporate Risk Register, the Committee accepts that the risk ratings are reasonable, that the action being taken is effective, and agrees that further explanation/information be requested as set out in the above preamble;



- ii) That approval be given for the:
- Reduction of risk likelihood rating for risk No. 29 – (Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term) and not containing net spending within the approved budget) from 'High' to 'Medium'; and
  - Increase the likelihood and impact ratings for Risk 7 (Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes) from Significant/Significant to High/High.
- 

At this juncture, the Chair varied the order of the agenda.

### **STATUTORY RECOMMENDATIONS MARCH 2019**

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

(See document No. 3)

Phil Jones, Grant Thornton made introductory comments to the report and specifically highlighted the recommendations referring to the Waste Service and financial risks that the Council was managing at this time.

A detailed discussion ensued, during which the following comments were made and responses were given to questions:-

The Chair raised concern regarding the very short notice of this item being included on the agenda given its importance. He stated that he had not been included in any prior discussion regarding the report which he stressed was unacceptable and should not be repeated.

He therefore suggested that in the future, it would be courteous to include the Chair of Audit Committee before reaching a point where it was dropped onto the committee at the last minute, adding that any similar reports should be brought to the committee in good time which had not happened on this occasion.

Phil acknowledged the Chair and members' frustration regarding the lateness of the report.

Phil briefly explained that recommendations could be issued at any time during the audit and given the overriding requirement for auditors to report promptly, and especially where there was an opportunity now to take forward a review of the waste service in a very effective manner, it seemed the most appropriate time rather than later on during the year.

He referred to the continuous working presence that they had with Council and that they met with Clive and colleagues on a regular basis. He referred to the

statutory recommendations that had been issued and confirmed that they were appropriate at this point in time, and also, it was a good spur for the Council to consider the actions that it needed to take to ensure that the risks were well managed and was confident that there was the evidence base to support them.

He referred to the issue raised regarding outsourcing and confirmed that there was not any preference for one method or another and that all they had attempted to do, was to summarise what they knew to be the options available and to encourage the Council to consider them all robustly, rather than write any off at the outset.

Clive Heaphy, Strategic Director, Finance, confirmed that the working relationship with the Council's auditors was a critical one and that both he and Dawn valued this enormously and highlighted the importance of all working closely together.

He shared concerns with regard to some of the processes and stated that he would be taking it up with the auditors to ensure there was a real understanding of the way the Council worked, and that the auditor would be regularly updated as to what was taking place in the organisation. He highlighted the importance of transparency and openness and that the Audit Committee was correctly informed from the auditor's opinion that was independent to the way the council operated, which was the way that it should be.

He referred to the report and whilst it identified a number of risks suggested that there were no new risks. With regard to specific issues where there were a number of risks they would continue to monitor them. He referred to the level of reserves and briefly explained how they had to manage the system in order to strike the right balance, adding that it was an important area of work.

He confirmed that they would be taking the recommendations seriously and take on board the Committee's comments which would be included within the covering report submitted to City Council next week. He highlighted the importance of having a full and open discussion in City Council regarding the recommendations and the Council's response to them and in how they differ/progress from the previous recommendations that were seen before.

Phil Jones, referred to 'strong political leadership' and gave various examples which included the refuse service of where politicians would be required to demonstrate real leadership in moving forward, adding that it was all the more important when linking to the finance issues (potential transformational savings) in order to get these things moving correctly it will need political leadership going forward in an environment where it was going to become tougher.

Frances Done, Birmingham Independent Improvement Panel, reported that the Panel would be stepping down on 31 March 2019. She referred to the final letter and report to the Secretary of State and confirmed that it would include similar information detailed in the external auditor's report and be submitted to the Secretary of State early April 2019.

She stated that it was inappropriate to share the information with the Committee as there were ongoing discussions with the Council. She added that they had taken into account the stocktake report which was submitted to Cabinet this morning, it was a public document and that they were looking at that as a basis of reporting to the Council with regard to the risks and issues in moving forward.

She referred to members' comments and confirmed that those issues were reflected in the report and also there was some reflection on how well the Panel had been able or not able to influence improvement in the Council. She highlighted the importance of the documents that had been submitted to the committee today and added that all members of the Council would receive a copy of the Panel's final report in due course.

Several comments were made by members relating to the Birmingham Independent Improvement Panel and the positive influence it had had on the Council and subsequently thanked them for their input.

Several comments were made by members regarding the importance of having the right people with the right skills set in place and reference was specifically made to the Waste Service and the need for the person in post to fully understand what was required in the running and the managing of the service.

Dawn Baxendale, Chief Executive officer highlighted the importance of members and officers collectively taking ownership as this was crucial to the organisation in going through the changes that were having to be made and to continue to do so, and it was about how this was driven together with being honest and with the high challenge and high support that flows from that.

She referred to the importance of employing competent staff and confirmed that they would be looking to employ an Assistant Director that would have the appropriate waste experience and fully understand the expectations of the service.

The Chair thanked Frances for the support that had been provided and hoped that the City was now in a better state than when they had first joined, adding that there was still a great deal of work to do over the next few years.

The Chair concluded by thanking officers for attending the meeting and presenting.

101

**RESOLVED:-**

The Committee noted:

- 2.1 The S24 Recommendations which would be reported and responded to at a meeting of Full Council, and
  - 2.2 the Committee's role in monitoring progress and implementation of the management actions proposed.
-

**AUDIT FINDINGS REPORT RECOMMENDATIONS – PROGRESS REPORT**

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

(See document No. 4)

Martin Stevens, Head of City Finance Accounts, made introductory comments to the report.

102

**RESOLVED:-**

- i) That the progress in implementing management actions, set out in Appendix 1 to the report, to address the recommendations set out by the External Auditor in his Audit Findings Report issued in July 2018 be noted;
- ii) That officers be requested to submit updated reports to future meetings of this Committee on the continued progress in implementing the management actions proposed.

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**BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2019/20 take after 24 recs**

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

(See document No. 5)

Sarah Dunlavy, Strategic Director, introduced the plan and provided a comprehensive breakdown of how it was compiled.

She highlighted that they had kept back a number of contingency days at the earlier stage in the year in order to be able to apply to emerging issues during the year.

She referred to the information in the appendices of the report and subsequently highlighted that due to discussions with each of the corporate directors, this had contributed towards the detail in Appendix B of the report.

Upon further consideration, it was:-

103

**RESOLVED:-**

That the Committee:-

- i) Noted the progress and the methodology applied and assumptions made in developing the 2019/20 internal audit plan;
  - ii) Considered the proposed audit coverage and identified any areas they wish to suggest for inclusion in the risking process; and
- subject to any agreed adjustments, approved the proposed plan.

**BIRMINGHAM AUDIT – EXTERNAL AUDIT PLAN**

The following report of the External Auditor was submitted:-

(See document No. 6)

Phil Jones, Grant Thornton, provided a comprehensive breakdown of the report. He highlighted the concern regarding the staffing levels within finance and that it was a risk to be managed in order that the plan was delivered on time.

In response to members' comments, Phil confirmed that the public sector audit team was dedicated to delivering public sector audit and was completely separate to the private sector audit, and also was confident that the systems that were in place delivering public sector audit was working well.

Martin commented that although there had been an unprecedented level of staff illness within the Accounts and Finance Teams, this was now beginning to reduce with some staff returning and the utilisation of staff from other areas within Finance, highlighting they were liaising regularly with the auditors in this regard.

Upon further consideration, it was

104

**RESOLVED:-**

That the report be noted.

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**GRANT THORNTON – EXTERNAL AUDIT PROGRESS REPORT**

The following report of the External Auditor was submitted:-

(See document No. 7)

Phil Jones, Grant Thornton provided a comprehensive breakdown of the report and highlighted that they should be in a position to deliver an opinion on 31 July 2019.

He provided a brief description of the data security breach that had taken place and confirmed that it had not included any personal information. He confirmed that BCC had been informed of the breach and was confident that any risk to BCC was low, adding that the file names had now been changed and that password protection could be looked into as a further security measure.

The Chair thanked Phil for reporting the data breach.

Upon further consideration, it was

105 **RESOLVED:-**

That the report be noted.

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**GRANT THORNTON - INFORMING THE AUDIT RISK ASSESSMENT**

The report of the External Auditor was submitted:-

(See document No. 8)

Phil Jones, Grant Thornton, made introductory comments to the report and highlighted that they were satisfied with the responses received from management.

Upon further consideration, it was

106 **RESOLVED:-**

That the report be noted.

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**ADOPTION OF ACCOUNTING POLICIES FOR 2018/19**

The report of the Chief Finance Officer was submitted:-

(See document No. 9)

Martin Stevens, Head of City Finance Accounts, introduced the report and explained the two major standards that were applicable for 2018/19 detailed in 5.1 and 5.3 of the report.

Upon further consideration, it was

107 **RESOLVED:-**

That the Committee:-

Considered and adopted the accounting policies for the determination of the Council's accounts for 2018/19; and

Noted the implications for future years' accounts arising from the changes in accounting standards.

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**HRA FUNDING OF WASTE COLLECTION**

The report of the Chief Finance Officer was submitted:-

(See document No. 10)

At this juncture, Councillor Trickett declared a non-pecuniary interest as this fell within her remit as Cabinet Member during the time that this happened.

Clive Heaphy, Strategic Director, Finance, highlighted that the overriding principle that members should be aware of was that generally council tax payers did not subsidise services, and housing revenue account payers, did not fund general fund services.

He briefly explained how the whistle blowing complaint had arisen and the actions that had been undertaken as a result of the complaint. He confirmed that a review had taken place and that the cost had related to a health and safety issue rather than pure waste collections.

He reported that due to the blocked shutters within the HRA tower blocks during the waste dispute, urgent action needed to be taken as this was a danger to the health and wellbeing of the residents. Therefore the HRA staff had picked up the cost quite rightly as an emergency measure and then what should have followed, and did not, was a subsequent review as to whether the cost should remain there or charged back to the general fund.

He confirmed that they would look to correct this and that a wider investigation would be taking place across the HRA to provide assurance that they were not picking up any other non HRA costs and vice versa which was what needed to be established. He added that if there were any policy decisions that fell into the grey area then they would be taken as proper policy decisions.

He confirmed that they would be discussing with the auditor whether they make an adjustment for this or not and briefly explained the issues of materiality, highlighting that he would be taking into account the auditor's views in this regard.

Sarah Dunlavy, Strategic Director, provided a brief account of the investigation that had taken place and explained that at the point of the interviews taking place, was unaware of the identity of the whistle blower involved, and as there was no dispute about the facts presented, in this case it was not necessary to have any discussion with the whistle blower.

Upon further consideration, it was

108

**RESOLVED:-**

That the Committee:-

Noted the results of the investigation, and that some of the charges were likely to be non-compliant with the statutory ring-fence and a level of reinstatement of HRA balance should be considered; and

In addition, a full review of HRA charges should be commissioned, including internal charges.

**EQUAL PAY UPDATE**

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

(See document No. 11)

Kate Charlton, City Solicitor, suggested that due to time constraints the above-mentioned item be deferred until the next meeting.

The Committee after a brief discussion agreed that the item be deferred until the first meeting of the Municipal Year, and suggested the following:-

- Equal Pay – that the Committee receive the relevant papers within the appropriate timescale prior to the next meeting, and
- To include - Agenda item – Settlement of Senior Officers when exiting the authority.

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**DATE OF NEXT MEETING**

110 The next meeting was scheduled to take place on Tuesday, 18 June 2019 at 1400 hours in Committee Room 2.

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**SCHEDULE OF MEETINGS FOR NEW MUNICIPAL YEAR 2019/20**

111 The following schedule of Meetings was noted:-

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

18 June 2019	- Committee Room 2
30 July 2019	- Committee Room 6
25 Sept 2019	- Committee Room 6
19 Nov 2019	- Committee Room 6
28 Jan 2020	- Committee Room 6
24 March 2020	- Committee Room 6

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**OTHER URGENT BUSINESS**

**Note of Appreciation**

112 The Chair thanked members and offices for their efforts and support over the past year and subsequently thanked Phil Jones and his team and wished him well in his retirement.



**AUTHORITY TO CHAIRMAN AND OFFICERS**

113

**RESOLVED:-**

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

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**EXCLUSION OF THE PUBLIC**

114

**RESOLVED:-**

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

Exempt Paragraph 3



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to: AUDIT COMMITTEE**

**Report of: The Chief Executive and the Director, Education and Skills**

**Date of Meeting: 18 June 2019**

**Subject: Ombudsman Report concerning a complaint about Post 19 Education Transport**

**Wards Affected: All**

### **1. Purpose of Report**

- a) In December 2006, the Audit Committee endorsed a framework for informing and involving Members of the Council when the Local Government and Social Care Ombudsman issues a report.
- b) The aim of this report is to inform members about the Ombudsman's report, issued in April 2019, concerning a complaint from Ms X about how the Council assessed her son's eligibility for Post 19 transport funding assistance.
- c) As the Ombudsman has found that there was maladministration and injustice, it should be considered by this Committee on behalf of the City Council.

### **2. Recommendations**

**That the Audit Committee approves the Director's proposed response to the Local Government and Social Care Ombudsman's recommendations.**

### **3. Background Information**

- 3.1 A copy of the Local Government and Social Care Ombudsman's report of April 2019 is appended to this report. All Ombudsman reports are anonymous, so, whilst the events described are real, the names of those involved are not included.
- 3.2 The essence of the complaint is the allegation that the Council:
- Did not properly consider the application Ms X made for transport support for her son, Mr X, who is autistic and has an EHC Plan. He is unable to access public transport. Initially it told her that it did not provide Post 19 Transport.
  - Took many months to consider the application.
  - When finally accepting that Mr X should be given assistance, only provided it from the date of the decision rather than the date of the application.

### **4. The Key Events**

- 4.1 Ms X attempted to make an application on behalf of her son on 26 March 2017. The Council did not advise her how to make an application and did not appear to consider the circumstances outlined by her in her application.
- 4.2 It was refused and Ms X was told that the Council did not provide transport for adults. When she queried this, she was told that it was only provided in exceptional circumstances, so she needed to arrange transport for her son.
- 4.3 It took time to obtain confirmation of the refusal to assist and Ms X chased for it, finally receiving it on 14 July 2017. The letter mentioned that there were special circumstances when the Council might assist and asked a number of questions.
- 4.4 Ms X replied on 28 July explaining her own circumstances and that her son would not be able to access education without a successful application for funding for transport.
- 4.5 Ms X chased frequently for a response, but only finally received a decision on 11 September 2017, at 20.58pm. This was the night before the new term started. Ms X was advised that her appeal was unsuccessful but no reasons were given. It did say that she could seek a review.
- 4.6 On 13 September, Ms X asked for clarification of the reason why she was unsuccessful so that she could appeal. No reply was given and she appealed on 18 September.

- 4.7 Despite asking frequently for updates, nothing was received, even though Ms X advised the Council that their inaction was causing her son unnecessary suffering to his mental health and wellbeing.
- 4.8 A complaint was made by the CAB on 12 December 2017.
- 4.9 On 16 February 2018, the Council advised Ms X that it would provide funding for the rest of the year, but it took until 9 May for a backdate of her costs from 12 September 2017 to be agreed.
- 4.10 Ms X also complained to the Council about the provision of a guide on journeys and was advised that an updated risk assessment was required before a guide could be provided. This would determine whether a male guide was necessary. A shortage of guides meant that the Council offered her the options of either providing a car to take her and her son to and from college, so she was acting as guide, or that he could travel alone if an updated risk assessment said he could.
- 4.11 It took from February until May 2018 to progress this and it had not been possible to provide a guide by July 2018.

## **5. The Ombudsman's Findings - Maladministration and Injustice**

- 5.1 The Ombudsman found that the Council had made it difficult for Ms X to apply for transport funding, even telling her that it did not provide funding for post-19 education.
- 5.2 It did not direct her towards the draft policy it was operating so she did not know what information to provide and how the Council applied its discretion.
- 5.3 It took 111 days for the Council to respond to her application and the Ombudsman found this delay was unacceptable, given that the draft policy says that applications will be processed as quickly as possible.
- 5.4 The Ombudsman found fault in that the Council did not explain how to make an application or how to appeal against an adverse decision.
- 5.5 When Ms X sought a review of the decision, the Council handled it poorly, asking for information she had already sent and taking 45 days to refuse her appeal. It failed to give reasons for the refusal. The Ombudsman found fault in this.
- 5.6 The Council had been informed that this situation was causing the family financial hardship and Ms X had told them that she was physically and mentally exhausted by trying to keep working while taking her son to and from College every day, but it still took far longer than was reasonable to make a decision about the appeal.

- 5.7 The Ombudsman found that the draft policy did not follow the law in that it says someone must not only need assistance but have exceptional circumstances.
- 5.8 The lack of record keeping about how decisions were reached meant that it was not possible to tell how the Council viewed Mr X. That meant that there was no information about whether the Council had followed the right test in law. The Ombudsman found the Council to be at fault in this.
- 5.9 The Ombudsman also found fault in that the Council asked Ms X irrelevant questions - such as her own financial situation. He found that the Council had put the responsibility for transporting her son on Ms X when it has a statutory duty to provide post 19 transport if it considers it necessary to do so.
- 5.10 Fault was also found in how the Council had handled the issue of provision of a guide. The Ombudsman considered that, knowing what the Council knew, it should have conducted a new risk assessment.
- 5.11 The Ombudsman found fault in that, although a carer's assessment had been carried out by Adult Social Care, it did not take into account the impact of taking her son to College.

## **6. The Ombudsman's Recommendations**

- 6.1 The Ombudsman recommended that the Council should write to Mr and Ms X to apologise for the distress and anxiety its actions had caused them.
- 6.2 It should also pay compensation of £2100 to Ms X and £1500 to Mr X for the maladministration and injustice caused to them for the way it had handled the post-19 transport process.
- 6.2 The Council should also implement the findings of its consultation on transport policy, ensure that applicants are clearly signposted towards the revised policy, keep proper records of its decisions and communicate the reasons for their decisions clearly and promptly.
- 6.3 The Ombudsman found that all the transitional cases, such as Mr X's, should be reviewed by the Council and any retrospective applications should be considered and the decision recorded. The Council must report the results of this to the Ombudsman.
- 6.4 The Council should also review its policy and procedure about the provision of guides so that risk assessments are conducted in a timely fashion.
- 6.5 The Council should review its policy and procedure in relation to carer's assessments to ensure that staff are alert to the need for support.

## **7. The Council's View**

- 7.1 The Council accepted the Ombudsman's recommendations at the draft report stage.
- 7.2 The Council has made the payments requested by the Ombudsman and apologised to Mr and Ms X.
- 7.3 Cabinet has recently approved a new 0-25 policy for transport assistance to educational provision. This includes Post 19. The Ombudsman recognised and welcomed the introduction of a new policy by the Council.
- 7.4 The new policy was subject to comprehensive consultation and provided the Council with an opportunity to discuss not only the policy itself but also matters related to practice. This included how the policy was communicated to parents and young adults; how we can improve the clarity of the application process and how easy the process is to navigate. Subsequently, the Council has committed to working with parents to change the application forms for transport assistance and to introduce a new application process for Post 19. The website pages relating to transport support will be changed to make them easier to understand and case studies will be provided to help give parents a better understanding of the different types of transport support available.
- 7.5 The decision making process for Post 19 applications is being changed. In the future, under the new policy, decisions will be made by an Independent Panel of professionals, including colleagues from Health, Safeguarding and Education, to ensure that the decision making process is transparent and consistent. Applicants will be able to attend Stage 2 Panel meetings to present their case. A new Quality Assurance Framework is also being introduced, which will include random 'deep dives' of decisions to ensure that the new process is working well. This framework will also ensure that decisions are communicated clearly and in a timely manner to applicants.
- 7.6 All transitional cases are being reviewed. This exercise is almost complete. We are required to report back to the Ombudsman about this exercise by 28 June 2019 at the latest.
- 7.7 With regard to the provision of Guides, in such new cases in the future, a new risk assessment will be undertaken to assess whether the requirements of the individual requesting transport has changed. In this case, there was some confusion about whether a male guide was still required (as had been the case previously). A new risk assessment, undertaken in a timely manner, would have addressed this issue.

- 7.8 This case has highlighted the need for improved communication between Children's and Adult's teams, where a parent may need a carer's assessment. Staff in Travel Assist have been informed that in such cases, they should ask the parent/guardian whether they would like/do not have a carer's assessment, and make the necessary referral to the Adult's Directorate as required.

## **8. Legal and Resource Implications**

The agreed payments have been made from an appropriate budget.

## **9. Risk Management & Equality Impact Assessment Issues**

The main risk would be that the service does not learn from this case and there are further cases where families have not been supported through the process of applying for transport assistance in the proper manner. The new arrangements put in place, following Cabinet approval of the new policy, should mitigate this risk.

A new Equality Impact Assessment was undertaken as part of the consultation on the new policy and submission to cabinet.

## **10. Compliance Issues**

City Council policies are being strengthened since this complaint was made.

## **11. Recommendations**

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

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## **Report by the Local Government and Social Care Ombudsman**

### **Investigation into a complaint against Birmingham City Council (reference number: 17 017 296)**

**3 April 2019**

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## The Ombudsman's role

For 40 years the Ombudsman has independently and impartially investigated complaints. We effectively resolve disputes about councils and other bodies in our jurisdiction by recommending redress which is proportionate, appropriate and reasonable based on all the facts of the complaint. Our service is free of charge.

Each case which comes to the Ombudsman is different and we take the individual needs and circumstances of the person complaining to us into account when we make recommendations to remedy injustice caused by fault.

We have no legal power to force councils to follow our recommendations, but they almost always do. Some of the things we might ask a council to do are:

- > apologise
- > pay a financial remedy
- > improve its procedures so similar problems don't happen again.

Section 30 of the 1974 Local Government Act says that a report should not normally name or identify any person. The people involved in this complaint are referred to by a letter or job role.

### Key to names used

Miss X	Complainant and mother
Mr X	Complainant and son
Officer P	Council officer
Officer Z	Council officer

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## Report summary

### School Transport

A mother complains about the way the Council assessed her son's eligibility for post-19 transport funding assistance. The Council did not properly consider his application and significant delay meant that she had to transport her son to college every day, unsupported.

### Finding

Fault found causing injustice and recommendations made.

### Recommendations

The Council has agreed to take the following action to remedy the injustice identified in this report. The Council will:

- a) Apologise to both Mr and Miss X for the way it handled the post-19 transport application and the way it handled the whole process.
- b) Pay Mr X £1500 to acknowledge the distress and anxiety he suffered during the year he was unsupported by the Council. This sum is at the higher end of our scale of payment for distress. The circumstances are exceptional. The sum reflects the severity of the distress, the length of time involved, Mr X's vulnerability and takes into account the opinion voiced by medical professionals that the Council's actions directly impacted on Mr X's anxiety.
- c) Pay Miss X:
  - i. £1000 to acknowledge the distress she suffered pursuing the Council for support. The sum is at the higher end of our scale of payment for distress. It reflects the severity of the distress, the length of time involved and the anxiety experienced by Miss X as she undertook the daily five-hour round trip to college without support, while continuing to run her business;
  - ii. £800 to acknowledge the risk of harm to Miss X during the period in question. Risk assessments had suggested Mr X should be accompanied with a guide and a clinician had raised concerns with the Council about the risk Mr X's behaviour, when anxious, could present to Miss X.
  - iii. £300 to acknowledge the time and trouble Miss X took to pursue the complaint. The evidence indicates she had to be persistent to engage a response, engaging councillors and solicitors to elicit a response.
- d) Implement the findings of its current consultation on transport policy, which will involve considering the wording of its policy in this area. It should ensure applicants are clearly signposted to any revised policy. It should ensure staff keep records of all decisions made and communicate the reasons for these decisions clearly and promptly.
- e) Review all transitional cases such as Mr X's and write to those affected. If, upon writing to the relevant people, it receives any retrospective applications, it should consider these and record how it reached those decisions. It should report its findings to us.

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Those that are unsatisfied with its decision can come to the Ombudsman and the Council should direct them as such.

- f) Review its policies and procedures around providing escorts, ensuring that risk assessments are conducted when needed and in good time.
- g) Review its policies and procedures in relation to carer's assessments to ensure that Council staff are alert to situations where carers need support.

The Council must consider this report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. (*Local Government Act 1974, section 31(2), as amended*)

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## The complaint

1. Miss X says her son's, Mr X's, application for post-19 transport funding was handled poorly by the Council. She said this caused her and Mr X an injustice. Her son is autistic and she says he found the uncertainty and anxiety caused by the Council's delay in decision-making very distressing.

## Legal and administrative background

### The law relevant to this complaint

2. We investigate complaints about 'maladministration' and 'service failure'. In this report, we have used the word 'fault' to refer to these. We must also consider whether any fault has had an adverse impact on the person making the complaint. We refer to this as 'injustice'. If there has been fault which has caused an injustice, we may suggest a remedy. (*Local Government Act 1974, sections 26(1) and 26A(1), as amended*)
3. We may investigate matters coming to our attention during an investigation, if we consider that a member of the public who has not complained may have suffered an injustice as a result. (Local Government Act 1974, section 26D and 34E, as amended)
4. The law says we cannot normally investigate a complaint when someone could take the matter to court. However, we may decide to investigate if we consider it would be unreasonable to expect the person to go to court. (*Local Government Act 1974, section 26(6)(c), as amended*)
5. Under the information sharing agreement between the Local Government and Social Care Ombudsman and the Office for Standards in Education, Children's Services and Skills (Ofsted), we will share this decision with Ofsted.

### Decision making

6. The Ombudsman's Principles of good administrative practice (2018), set out principles of good administration in decision making. These include:
  - being service-user focused
  - being open and accountable
  - acting fairly and proportionately

### Care assessments

7. Under the Care Act 2014 and Care Act Guidance, councils have a duty to carry out an assessment where "an adult may have needs for care and support" and, also consider carrying out a carer's assessment if it appears a carer may have a need for support.
8. The Care Act Guidance says an assessment "should be carried out over an appropriate and reasonable timescale taking into account the urgency of needs and a consideration of any fluctuation in those needs".
9. The care assessment must identify the total extent of needs before a council considers the person's eligibility for care and support. Any eligible needs met by a carer are not required to be met by the local authority, for as long as the carer continues to do so. The council must consider whether the carer is, and will continue to be, "able and willing" to care for the adult needing care. This must

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include consideration of the carer's activities beyond their caring responsibilities, for example employment or a desire to work.

10. A person and his/her carer, will have the best understanding of how the needs identified in a care assessment will best fit into their lifestyle and help them achieve the day to day outcomes identified.
11. Where a council has determined a person has eligible needs that are not being met by a carer, it must meet those needs (subject to the applicant meeting the financial criteria).

### **Parents' responsibility**

12. The Care Act guidance states the importance of full-time programmes for young people aged 16 and over to 'allow parents to remain in employment full time'. (*Paragraph 16.22*)
13. Parents and carers are responsible for ensuring children of compulsory school age attend school. There is no similar duty for dependent adult children with an Education, Health and Care plan (EHC plan). An EHC plan is for children and young people between 0 and 25 years old in education, who have additional needs. The plan coordinates a child or young person's health and social needs and sets out any additional support they may need. (*Education Act 1996, section 7*)
14. Parental responsibility ends when a young person reaches age 18 years old.

### **Transport to education setting**

15. Section 508F of the Education Act 1996 requires local authorities to make transport arrangements they consider "necessary" (or that the Secretary of State directs) to facilitate the attendance of relevant young adults at institutions where the local authority has secured the provision of education for the adult concerned. Relevant young adult means an adult who is under 25 years old for whom an EHC plan is maintained. (*The Children and Families Act 2014, section 82*)
16. When a council finds it is "necessary" to provide transport for the young adult under section 508F, then the transport must be free of charge (*Education Act 1996 section 508F(4)*).
17. If a local authority does not consider it "necessary" to provide transport under section 508F it may still choose to pay some or all of the reasonable travel costs under section 508F(8) or as social care provision under the Care Act.
18. Under section 508G of the Education Act 1996 local authorities are required to set out information about the travel provision they have in place for relevant young learners so they and their families can make informed choices between institutions. The SEN Code of Practice 2014 requires councils to have clear policies about transport in their Local Offer.
19. Councils can make payments to parents and carers of pupils with SEN to act as an escort or use the family car to transport them. Government guidance 'Home to School Travel for Pupils Requiring Special Arrangements' (2004), says councils should set out in their policy when they will do this and the amounts parents or carers are entitled to.
20. The application of a transport policy in relation to a disabled young person engages the Equality Act 2010. Councils are required to have regard to the need to advance equality of opportunity to access education between persons with a disability and those without.

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21. The Department of Education's Statutory Guidance for Post-16 Transport (2014/ 2017) says any complaint or appeal procedure about a transport decision should be published alongside the local authority travel policy statement.
22. The Upper Tribunal (Administrative Appeals Chamber) has considered transport for post-19 learners with an EHC plan (section 508F). The Tribunal commented that:

"The local authority has a duty to make transport arrangements for [a post-19 learner] if they consider that to be 'necessary' having regard to all the relevant circumstances. This is not a pure discretion. Although the question of what is necessary is a matter for them, in deciding that question they must exercise their judgment judiciously and in good faith. If they come to the conclusion that it is necessary, they must make the necessary arrangement and the transportation must be free of charge."  
*(Staffordshire County Council v JM, 2016] UKUT 246 (AAC)*

### **The Council's post-19 transport policy**

23. It is called the Adult Education Transport Policy Statement 2017-18/2018-19. It states, among other things:
- the Council does not consider it necessary to make any general arrangements for free transport or the payment of any travelling expenses. Whilst the Council retains a discretion to make such arrangements or payments, its policy is to do so only where it considers the circumstances are exceptional.
  - if someone considers their circumstances are exceptional, he/she should apply to the Council in writing, providing information as set out in the policy document. The policy document asks a young adult to provide relevant details including the person's age, current travel arrangements, the route, how the Council could assist. It also says applicants may be asked to provide other information to support their application.
  - each application will be processed as quickly as possible. The decision will be provided in writing within 21 days of the receipt of the application.

### **How we considered this complaint**

24. We spoke with the complainant and made enquiries of the Council. We gave both parties the opportunity to comment on a draft of this report. We considered the comments made before finalising the report.

### **What we found**

#### **Background facts**

25. Miss X complains with and on behalf of her son, Mr X. Mr X is autistic and has an EHC plan. Around February 2017 he was applying to attend a special needs college for a further year, College F. Previously the Council organised an escort to accompany him to College F. Mr X wanted to continue to go to College F but initially did not think this would be possible. Miss X and her son began looking at a placement at another college, College G. Miss X says she was told by the Council she should contact Officer P, an officer in the transport department, to explain the Council's policy on post-19 funding for transport. She did this in February 2017.

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26. The records show Miss X was told that there were no application forms she could use to apply. She said she was told she would be put on a waiting-list to receive an application form.
  27. She therefore wrote a request in an email on 26 March 2017. The request was for Mr X to be provided with transport funding to attend College G. The records do not show she was directed to the Council's policy informing her how to put together an application or told what information she would need to provide.
  28. The next day Officer P responded. He said he had discussed Mr X's proposed placement with officers. They confirmed Mr X would be accessing post-19 education. He said that therefore, it was not, "appropriate to provide free transport or other financial or other assistance to facilitate the attendance of adults receiving education." The word 'adults' was underlined and in bold. Officer P said the Council was not obliged to provide free transport to adults, under the law. He said it was 'vital' Miss X understood the Council's stance when considering Mr X's placement.
  29. Miss X queried this, saying she had previously understood from Officer P that the Council sometimes provides funding for some young people. She asked how funding could be turned down for Mr X when he had not, as yet, put his case forward.
  30. Officer P responded again that the Council did not provide funding for post-19 education.
  31. Miss X then received confirmation that Mr X could stay at College F. On 29 June 2017, she wrote again to Officer P. She said he told her to contact him again when Mr X's placement was confirmed. She asked him to start the process of applying for transport funding.
  32. Officer P asked what Mr X's year group was. She told him he would be 20 years old.
  33. He responded the next day, this time saying that, save for exceptional circumstances, the Council does not provide post-19 funding. He said it was therefore Miss X's responsibility to arrange transport for Mr X.
  34. Miss X said she had been given different information. She said she had been told that while the Council is not obliged to provide funding, under special circumstances it can. She also said that Mr X would not be able to access the education named on his EHC plan if transport was not provided.
  35. On 5 July 2017, she emailed Officer P asking for a response. She asked if the answer as to whether Mr X would get transport "still stands as a no". She said if it was she would need to know about the appeals process.
  36. Officer P responded, saying, "... in answer to your question, [the Council] does not provide transport to students accessing Post 19 education provision". He said he would send her an official letter by the end of the week. Miss X asked if there was an appeals process. He did not answer.
  37. On 10 and 12 July 2017, Miss X contacted the Council to say she had not received a letter.
  38. In response to our enquiries the Council says Miss X's email correspondence did not amount to a formal application for funding. However, it says it considered the content of her emails and noted that she did not provide any exceptional reasons



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as to why Mr X could not attend his placement without travel assistance provided by the Council.

39. On 14 July 2017, the Council sent a response, refusing assistance. It said that the Council is not obliged to provide free transport. However, it added that if there are “special circumstances” which are relevant to an application for transport assistance, these will be considered and assessed. Miss X was asked to answer a number of questions about Mr X so the Council could assess whether he would be entitled or not. These included questions about why Mr X needed assistance and whether he was able to access public transport. She was asked, in line with the questions set out in the Council’s policy, to confirm Mr X’s current travel arrangements.
40. She was also asked to provide details about the family’s circumstances, with ‘particular reference’ to how much Miss X could afford to pay for Mr X’s travel.
41. On 28 July 2017, Miss X responded, providing answers to the questions asked. She explained that she was on a low income and that if Mr X’s application was not successful, he would not be able to access education. She added that she hoped she had provided the information required.
42. She did not receive a response. She sent the information again on 2 and 9 August 2017.
43. On 22 August 2017, she emailed again. She said she had emailed twice and sent the information required by recorded delivery. She asked Officer P to acknowledge her response. He acknowledged her response on the same day but made no comment on the information she had provided.
44. On 30 August 2017, she asked for an update. She reminded Officer P that Mr X suffered from anxiety and that it was important for him to know what his routine would be. She said she needed to prepare to reduce his anxiety levels and it was concerning her that college started on 12 September 2017 and she still did not know how to transport Mr X to and from the site.
45. On 1 September 2017, having received no response, she asked for an update again. She said Mr X was getting “increasingly anxious” because she was unable to tell him how he would travel to college.
46. The records indicate she also phoned the Council around this period. On 11 September 2017, the day before college started, she contacted a councillor in a further effort to get an answer to her application. It was again explained that Mr X would have no way of getting to college if the transport application was unsuccessful, as Miss X worked full time.
47. At 20:58 on the night of 11 September 2017, Miss X was told by email that her appeal had been unsuccessful. She was not given any reasoning for the decision but was told she could seek a review if she disagreed.
48. In response to our enquiries the Council said Miss X had not provided enough supporting evidence in answer to the questions asked on 14 July 2017.
49. On 13 September 2018, Miss X asked the Council to clarify its reasons so she could appeal the decision.
50. On 15 September 2017, she asked again. On 18 September 2017, she asked for a review. The Council says it received her appeal in a bundle date stamped 21 September 2017. It said this bundle provided the relevant information.
51. However, the records do not indicate there was any response to this information.

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52. On 19 September 2018, a lead clinician, working for an NHS Trust, emailed the Council saying she was concerned the funding for Mr X's transport had not been approved. She said, among other things, that:
- the fact Mr X had not been told of the decision until the night before college started meant Mr X had no time to prepare for a change to his morning and evening routine.
  - she understood this had increased Mr X's anxiety and led to Mr X making verbal and physical threats that he would punch Miss X.
  - she understood that on one occasion during the previous week Mr X had hit Miss X, which was concerning because he had not shown physical aggression towards his mother for some time.
  - she was concerned about Miss X's safety. She said Miss X must find the situation frightening because of Mr X's physical stature.
  - Miss X was currently driving five hours a day to take Mr X to college and that she was exhausted. She said it was also having considerable financial implications in terms of Miss X's ability to work.
  - Miss X taking Mr X to college could be impacting upon Mr X's independence skills.
53. She asked the Council to take the above into account when making its decision.
54. The records we have seen do not indicate there was any response to this correspondence. Miss X says she took Mr X to college every day. The journey, she says, took on average five hours a day. Online travel mapping software confirms this. Miss X is self-employed. She says this enabled her to "work around" taking Mr X to college. However, she also says the strain of taking Mr X to college and maintaining her business meant she had to close down one aspect of her business, which affected her and her family financially.
55. On 29 September 2017 Miss X asked for an update on her appeal. She did not receive a response. On 7 October 2017, she met with her MP. She emailed the Council again on 9 and 12 October 2017 asking for a response.
56. On 13 October 2017 Officer P said he was progressing the appeal. He said he hoped to be able to give Miss X a timeframe and would do so on 16 October 2017.
57. Miss X emailed the Council on 17 October 2017, saying she had not been provided with the timeframe. She emailed again on 19 October 2017. Her case had been passed to a different officer, who asked for extra information. Miss X asked why she had not been asked for extra information before. She provided answers to the same questions she had been asked in July 2017. Her answers did not differ greatly, although she did explain that she had not had any conversations with Mr X's college placement about travel assistance.
58. She also said she was no longer able to work as she had to transport Mr X to and from college. She said this was causing the family financial hardship.
59. She added there was a safety aspect to consider. She said Mr X always travels with a person accompanying the driver and this had been stated as a necessity in a previous risk assessment.

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60. An exchange of emails around the information required continued for some time. On 1 November Miss X asked for an update again. The officer now dealing with her case, Officer Z, asked for further information. Miss X said:
- “You are causing my son a great deal of unnecessary suffering to his mental health and wellbeing with these months of uncertainty. Your actions appear deliberate.”
61. She provided the relevant information later that day.
62. On 20 November 2017 Miss X asked for an update. She asked again on 23 November 2017.
63. On 27 November 2017, another one of Mr X’s clinicians wrote to the Council asking for an update. He commented on the difficulties the Council’s delay was causing Miss X and her son. He said in his opinion Mr X had “severe and critical needs”. He also said that in his opinion, the “difficulties arranging transport are one of the largest contributing factors to the high risk of him losing his place in the community”. He asked for some indication from the Council as to when a decision would be made and whether it was likely to provide a transport solution.
64. Miss X asked for an update again on 4 and 11 December 2017. She also asked for a copy of the Council’s policy on transport for adult learners. There is no record indicating this was provided.
65. She continued asking for a response. We have not seen the letter but we understand she also asked a solicitor to write to the Council. Miss X says she did not incur any solicitor’s costs because she was told the transport was related to her son’s EHC plan and she was therefore able to receive legal aid.
66. On 12 December 2017, Citizens Advice submitted a complaint from Miss X. Within the complaint filed, Miss X said:
- she was being forced into hardship because she would have to give up her work and go on benefits.
  - when her son had transport, it was “his bit of independence and this has been removed. My son’s needs have not changed overnight just because he is 20 years old”.
  - Miss X continued to ask for a response to her complaint.
67. On 16 February 2018, the Council emailed Miss X saying it would provide funding for the remainder of the year. It said it had been a difficult decision. It accepted it had been a lengthy process and said it was looking into making small changes to ensure that all relevant information is collated and considered in the first instance.
68. Following more correspondence and the intervention of Miss X’s solicitors, the Council agreed, on 23 February 2018, to pay Miss X an hourly rate in addition to her fuel costs for taking Mr X to school. It agreed to backdate payment to 12 September 2017. It informed her of this on 9 May 2018.

### **Providing a guide**

69. On 20 February 2018 Officer Z wrote to Miss X confirming that she could have assistance until the end of the year. She was told an updated risk assessment was needed before this could be provided.
70. She also said the Council had a shortage of guides. Officer Z offered two options:
- a) the Council could provide a car to take Mr X to and from college but Miss X would have to support him on both journeys, or

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- b) if the risk assessment says Mr X can travel alone, he could do this.
71. Miss X replied to the Council, saying she was disappointed by this response. She said that previous risk assessments showed that Mr X must travel alone with a male guide. He could not travel with other pupils because of his high and complex sensory issues. She said this had not changed. She said this was reflected in the evidence she had already given the Council from Mr X's doctor.
72. She said she was unable to go to college with Mr X as, being the sole provider, she needed to work. She suggested a male guide who might be able to help. She said she was mentally and physically exhausted by the stress of the previous six months.
73. Miss X provided evidence to the Council which showed that since September 2017 she had managed to take Mr X to college almost every day, bar an occasional authorised absence.
74. Officer Z replied that a risk assessment needed to be done because Mr X had not had travel assistance since July 2017. Officer Z said that the male guide Miss X had suggested would need to go through the Council's recruitment process. Or, the Council would pay Miss X a form of personalised transport budget which would be in line with the hours it normally pays guides.
75. Miss X said she did not know why a male guide was necessary. She said the Council had decided this on the basis of an old risk assessment. It appears her previous reference to a male guide was based on the Council's risk assessment rather than her own personal view.
76. On 17 April 2018 Miss X wrote to the Council again. She said she had provided the Council with all the information it had required but had still not received any payment. She said she had been promised updates on Mr X's transport but had not received any. She said there was no need for Mr X to have a male guide and asked the Council to look into this urgently, as had been promised in February 2018.
77. On 24 April 2018, the Council provided payment of Miss X's costs from 15 February 2018. Officer Z said that the Council's risk assessment had said Mr X must travel with a male guide. It said a new risk assessment would be needed if he only needed a female guide. She asked for further evidence from Mr X's college and doctor. She said she would forward this to an occupational therapist to review.
78. Miss X responded that the Council was using a risk assessment dated 2014. She pointed out that the Council had said it would carry out a new risk assessment in February 2018 and asked if this had happened.
79. On 1 May 2018 Miss X asked College F to confirm with the Council that Mr X did not need a male guide. The college confirmed this the same day.
80. Mr X's clinician also wrote to the Council on 1 May 2018. He said, "... the deficit in service provision carries significant risk to [Mr X] and his mother who currently transports him". He strongly advised the Council to progress a new risk assessment. He said if there was any further significant delay he would, "... escalate the risk presented by this case to a higher level with health commissioners".
81. On 4 May 2018 Miss X asked for an update.
82. On 9 May 2018 Officer Z asked Mr X's college for his current risk assessment.

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83. At the time of the Council's response to our initial enquiries into the complaint, on 3 July 2018, it had still been unable to provide Mr X with a guide to accompany him to college. It has provided me with a copy of a 2012 risk assessment.

## **Findings**

### **The initial application**

84. From the outset, the Council made it difficult for Miss X to apply for transport funding. She was told she would be put on a list for an application form. She was not told what she was expected to provide for funding to be considered. Without showing it had considered Mr X's circumstances, the Council informed her, a number of times, that it simply did not provide funding for post-19 education. This was not true.
85. If Miss X had been directed towards the Council's policy at the outset, she would have better understood the discretion the Council says it applies. She would have known what information was expected. The Council placed obstacles in her path and this is fault.
86. The Council says Miss X did not provide any information about Mr X's special circumstances. But she was not initially asked to do so. She was only asked to inform the Council of Mr X's age. The evidence shows it had a rigid approach to enquiries of this nature, which may have put off a less persistent applicant.
87. I consider that Miss X made her initial application on 26 March 2017 and was rebuffed immediately. She added the detail of Mr X's confirmed school to her application in June, when he was given a place, but in total, the Council took 111 days to respond to her application. The Council's policy says applications will be processed as quickly as possible. This is unacceptable delay. It is fault and it caused Miss X and her son Mr X a significant injustice.
88. The Council is at fault for not informing Miss X how to make a full application and for not demonstrating any consideration of the circumstances of the case, other than Mr X's age. In answer to her question about whether there was an appeal process, she was simply told that the Council did not provide transport for post-19 students. She had to repeatedly ask for the information set out in its initial decision letter. This would have stopped most people pursuing an application and was fault.

### **The review**

89. The Council says that, when Miss X filed her response to the decision letter of 14 July 2017, she failed to sufficiently answer the questions set out. It says that Mr X was attending a course which was specifically for supporting students into employment and independence. It says it considered Mr X's personal aspirations. It also said that Miss X was able to work reduced hours which would enable her to transport Mr X to college and it considered this was reasonable. It therefore decided not to allow her appeal.
90. We consider that Miss X did answer most of the Council's questions. She did not provide supporting evidence but she was not asked to. While the Council is not obliged to help a person with their application, if it considered Miss X had not provided answers to some questions, it is reasonable for it to have told her, especially since she said that she hoped she had provided what was required and had sent it to the Council repeatedly with no acknowledgment. This is fault and

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the Council has already accepted it should have collected the information it needed at an earlier stage.

91. Despite Miss X's frequent requests for an update and explaining that the uncertainty was causing her autistic son great distress, the Council did not inform her of its decision until 20:58 the night before he was due to start college. This was 45 days from the date of her appeal. This is unacceptable and shows a disregard for Miss X and her son's anxiety.
92. The decision letter gave no reasons for refusal. Decisions should be taken in an open and transparent manner. This is fault.
93. The Council says Miss X provided the relevant information in her review request of 22 September 2017. It does not sufficiently explain why it then took the Council until 15 February 2018 to uphold her request for review; a wait of 146 days.
94. During this time Miss X continually asked for a response. The Council had sight of further evidence that its delay was causing Mr X serious anxiety. Mr X's clinician also requested a response on behalf of Mr X and Miss X, setting out the personal risk to both.
95. The Council was informed, several times, of the financial hardship caused to the family. Miss X said she was mentally and physically exhausted. She was trying to keep working and to take Mr X to and from college each day. She managed to achieve a 93 per cent attendance rate for Mr X during this time.
96. In its decision letter, the Council said the case had been complex and had involved individual case conferences led by Senior Officers to consider the information provided in relation to Mr X's needs. The Council kept no records of these meetings. It also failed to inform Miss X of the action it was taking to reach its decision. This is fault.
97. Furthermore, the Council had much of the information it needed to consider this matter when Miss X responded on 28 July 2017. In response to our enquiries, it says it changed its initial view because Miss X provided extra information about her financial position. She did not. She only provided extra evidence, which she could have provided if asked previously. When asked, she provided the information almost immediately. As noted below it is concerning that Miss X's financial position was considered as being relevant to the Council's decision about Mr X's application.
98. The Council says Miss X provided further information about Mr X's condition. Again, the information provided was not wholly different from the information provided at the beginning of the process. Miss X repeated her statement that Mr X had a diagnosis of autistic spectrum disorder, moderate to severe learning disability, ADHD and OCD. He also had a diagnosis of sensory impairment related to a sensitivity to noise, light and texture. This was the same statement she had used in answer to the initial questions from the Council. It only differed where she added he had language and communication difficulties and suffered from extremely high levels of anxiety, which could lead to negative behaviours.
99. She referred the Council to Mr X's risk assessment, which it already had a copy of. She had already told the Council, in other correspondence, about Mr X's anxiety. She provided some medical reports, but she was not asked to produce these before. They confirmed the above but they could have been asked for much earlier. The only reason Mr X's doctors provided additional information was to get a response.

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100. It is of concern that the Council says it refused Miss X's application in July 2018 following feedback from his college which indicated he was working towards independence. This suggests the Council thought transport support was not necessary. However, in the same response, the Council says it was content that Miss X would support Mr X by taking him to college. This clearly indicates the Council felt Mr X needed support but viewed it reasonable for Miss X to bear that burden by reducing her working hours. Furthermore, even if the Council was trying to address Mr X's personal aspiration to be more independent, it has not demonstrated how this sits with risk assessments which showed that Mr X needed support to go to college. The Council did not show what consideration it gave to Miss X's statement that Mr X would not be able to access his education placement if transport was not provided. She specifically told the Council that Mr X could not access public transport or travel independently. The Council did not demonstrate that this was considered. Nor is there any evidence that the Council asked for Mr X's view, if it felt this conflicted with the information given by Miss X. This is fault.
101. In any event, the extra detail Miss X provided did not appear to encourage the Council to act any faster. When it had all the information required, the Council still took months to come to a decision, even though it was aware that medical practitioners thought the situation, as it stood, was a risk for both Mr and Miss X. This was fault.
102. In its February 2018 decision letter, the Council accepted it had been a lengthy process. But, even so, the Council initially only agreed to provide Miss X with funding from the date of the delayed decision. It knew Miss X was undergoing financial difficulties, but did not pay these funds until 24 April 2018, and after she had chased payment. This was a further 68 days wait. This was fault.
103. The Council accepted the process had been overly lengthy. Principles of good administration dictate that the Council should not profit from its own delay. It is disappointing it took until 14 May 2018 for the Council to agree to backdate the payments, and after Miss X instructed a solicitor. This is fault.

#### **Concerns about Council policy**

104. The law says that if the Council considers it is necessary for an adult who is over 19 to have transport provision then this must be provided. It does not say that it will only do so if there are exceptional or special circumstances, which is what the Council's policy currently says. The language the Council uses in its policy gives the impression a person's circumstances must be such that he/she not only 'needs' assistance, but their circumstances are exceptional, which indicates they must be different to other people who have similar needs. That is not what the law says. This is fault.
105. As it stands the policy could dissuade people from applying for post-19 travel assistance even when it is necessary for them. This is fault.
106. It might be that the Council initially considered Mr X's situation was not exceptional. It might be that it considered his circumstances were not special. It is difficult to tell as the Council did not keep records. The Council was not open and transparent about its decision-making process and this was fault.
107. But, in any event, that is not the test. The test is whether the Council considered transport funding for Mr X to reach his place of education was necessary. The Council did not demonstrate that it followed the right test in law, either in its policy or in its overall consideration of Mr X's situation. This was fault.

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108. The Council points out that the Government has recently re-issued guidance on Post-16 transport issues. The guidance says the overall intention of the Post-19 Adult duty, is to ensure that those with the most severe disabilities, with no other means of transportation, are able to undertake further education and training after their 19<sup>th</sup> birthday to help them move towards independent living.
109. The guidance does not explain what it means by “the most severe disabilities”. The test has not changed. The position remains that the Council should provide funding for those post-19 adults whom it considers it is necessary to provide transport funding for and who have no other means of transportation.
110. The Guidance also reaffirms that local authorities should exercise their power to provide transport or financial support reasonably, taking into account all relevant matters.
111. Mr X had no other means of transportation available to him, other than his mother. It was not reasonable for the Council to place her in a position where she was forced to travel five hours a day to take him to and from college, unsupported. She could not afford to do it, her business suffered and she should not have had to do it. She was neither able nor willing to be the “other means of transportation”.
112. The Council has now started a consultation about proposed changes to its transport policy with a view to adopting a single policy for children and young people aged 0 to 25 years old, which involves consideration of the post-19 policy wording.

#### **Irrelevant considerations**

113. To determine if Mr X’s circumstances were special, the Council asked Miss X questions about her financial ability. Its policy does not say this information should be provided but even so, it specifically asked Miss X this question. The Council also said that when it eventually agreed to provide funding, one of the reasons it changed its view was because Miss X had provided it with further information about her finances.
114. Miss X’s financial situation was not a relevant consideration. Miss X was not willing and able to take Mr X to college. The Council should have only considered how Mr X would get to college and whether funding was necessary. It should not have been looking to Miss X to take on the responsibility of taking her son to college.
115. Mr X’s transport was not Miss X’s responsibility. He is over the age of 18 years old. The Council has a statutory duty to provide post-19 transport if it considers it necessary to do so. It should not limit its consideration of whether funding is necessary or not if the young adult has an available parent. It is the Council’s responsibility to ensure it meets the needs set out in an EHC plan, not the parents’.
116. To squarely lay the burden of dealing with transport costs, arrangements and risks at Miss X’s door, without demonstrating proper consideration as to whether the Council should use its discretion in Mr X’s case or not, was fault.

#### **Guide to college**

117. By July 2018, the end of the last college term, the Council had still not found a guide to accompany Mr X to school. It says it had a shortage of guides and it is making every effort to address the issue.



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118. Initially it considered Mr X needed a male guide. It justified this approach by referring to an old risk assessment and it did so even though it had initially told Miss X she wouldn't be able to have a guide until a new risk assessment was undertaken. We have seen no evidence that a new risk assessment was ever conducted.
119. The only assessment the Council has provided me with is dated in June 2012. Given the amount of times the Council was warned about the significant risk the situation presented, we consider it should have conducted another risk assessment, in line with what it said it would do. This is fault.
120. Miss X also had to press the Council to look at the option of a female guide. The Council said a new risk assessment would have to be conducted to start this search but did not complete one. This was fault.
121. Miss X asked the college and Mr X's doctor to provide supporting information to show Mr X could use a female guide. But there is no evidence the Council used this information to then search for a female guide.
122. Knowing the strain the daily five hour commute was putting on Miss X and having been told by Mr X's doctor again in May 2018, that this was a significant risk, this was fault.

### **Carers Assessment**

123. Since issuing our draft report, the Council has provided evidence that Miss X was assessed on 23 August 2018. It says that an extra £120 was provided to Miss X after Mr X's support plan was drawn up at the end of October 2018.
124. However, we have not seen evidence the Council considered how the (on average) five-hour journey Miss X had to complete daily for the academic year, which was the focus of this complaint, impacted on her as a carer. She repeatedly told the Council she was struggling but the Council did not respond appropriately until after she had been transporting Mr X for the full academic year. She says the Council ignored that:
- she wanted to continue to work but was increasingly unable to do so;
  - had a back condition which was made worse by driving five hours a day, and that;
  - driving alone in the car with Mr X was a safety risk.
125. The records show that Miss X was not "able and willing" to take Mr X to college every day. Government guidance emphasises the importance of full-time programmes for post-16 learners so parent carers can work.
126. Where a college placement is less than five days, councils must look at providing training or volunteering opportunities, or additional care support, so carers can work full-time. The Council should have considered how it could support Miss X to remain in work alongside her caring responsibilities.
127. The Council did not act on this information until February 2018, almost eight months after Miss X's application in June 2017. This is fault.

### **Conclusions**

128. Miss X and Mr X have suffered a number of injustices throughout this process. To an extent, the financial injustice has been remedied by the Council's reimbursement of Miss X's travel and fuel costs.

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129. However, we also have to consider the injustice caused by both the Council's unwillingness to initially consider Miss X's application fairly and the overall prolonged delay. We also have concerns about the wording of the Council's policy and how that might dissuade applicants who might be entitled to support from applying for assistance.
130. Mr and Miss X suffered the injustice of almost a full year without any support because of serious failings in the Council's approach to this case. This is fault which caused significant injustice. We have made recommendations to remedy that injustice.

### **Agreed action**

131. We welcome the Council's constructive response in agreeing to remedy the injustice identified in the report and to improve its policies and procedures to avoid similar problems for others in the future.
132. The Council will:
- a) Apologise to both Mr and Miss X for the way it handled the post-19 transport application and the way it handled the whole process.
  - b) Pay Mr X £1500 to acknowledge the distress and anxiety he suffered during the year he was unsupported by the Council. This sum is at the higher end of our scale of payment for distress. The circumstances are exceptional. The sum reflects the severity of the distress, the length of time involved, Mr X's vulnerability and takes into account the opinion voiced by medical professionals that the Council's actions directly impacted on Mr X's anxiety.
  - c) Pay Miss X:
    - i. £1000 to acknowledge the distress she suffered pursuing the Council for support. The sum is at the higher end of our scale of payment for distress. It reflects the severity of the distress, the length of time involved and the anxiety experienced by Miss X as she undertook the daily five-hour round trip to college without support, while continuing to run her business;
    - ii. £800 to acknowledge the risk of harm to Miss X during the period in question. Risk assessments had suggested Mr X should be accompanied with a guide and a clinician had raised concerns with the Council about the risk Mr X's behaviour, when anxious, could present to Miss X.
    - iii. £300 to acknowledge the time and trouble Miss X took to pursue the complaint. The evidence indicates she had to be persistent to engage a response, engaging Councillors and solicitors to elicit a response.
  - d) Implement the findings of its current consultation on transport policy, which will involve considering the wording of its policy in this area. It should ensure applicants are clearly signposted to any revised policy. It should ensure staff keep records of all decisions made and communicate the reasons for these decisions clearly and promptly.
  - e) Review all transitional cases such as Mr X's and write to those affected. If, upon writing to the relevant people, it receives any retrospective applications, it should consider these and record how it reached those decisions. It should report its findings to us.
- Those that are unsatisfied with its decision can come to the Ombudsman and the Council should direct them as such.

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- f) Review its policies and procedures around providing escorts, ensuring that risk assessments are conducted when needed and in good time.
  - g) Review its policies and procedures in relation to carer's assessments to ensure that Council staff are alert to situations where carers need support.
133. The Council must consider this report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this. (*Local Government Act 1974, section 31(2), as amended*)

## **Final decision**

134. We have found the Council at fault and made recommendations to remedy that fault. The Council has accepted our recommendations and we have now completed our investigation.



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to: AUDIT COMMITTEE**

**Report of: Chief Finance Officer**

**Date of Meeting: 18 June 2019**

**Subject: 2018/19 ANNUAL GOVERNANCE STATEMENT**

**Wards Affected: All**

### **1. Purpose of Report**

- 1.1. The Annual Governance Statement (AGS) forms part of the Statement of Accounts for 2018/19 and reports on the Council's internal control regime.
- 1.2. Section 6 of the AGS includes 8 key issues for the Council which may impact on the organisation's governance arrangements.

### **2. Recommendations**

- 2.1. To approve the Annual Governance Statement that will be included in the 2018/19 Statement of Accounts.
- 2.2. To agree that the arrangements for the management of the items included in Section 6 will be reported to the Audit Committee during the year.

### **3. Background**

- 3.1 One of the requirements for the Annual Governance Statement (AGS) is that it should reflect the governance arrangements for the financial year to which it relates, up to the date of approval of the Statement of Accounts.
- 3.2 The AGS forms part of the Council's annual Statement of Accounts. The Statement of Accounts will be available, post audit, at the meeting on 30 July.
- 3.3 The significant issues raised in the Assurance Statement and audit processes are summarised in Section 6 of the AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

### **4. Legal and Resource Implications**

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

### **5. Risk Management & Equality Impact Assessment Issues**

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

### **6. Compliance Issues**

- 6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.
- 6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of the Council of the Future's objectives.

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**Clive Heaphy – Chief Finance Officer**

**Contact Officer: Martin Stevens**

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

## Annual Governance Statement 2018/19

### 1 Scope of responsibility

- 1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.
- 1.3. The Council operates a governance framework which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

### 2 The purpose of the governance framework

- 2.1. The Council as a whole is committed to good governance and to improving governance on a continuous basis through a process of evaluation and review.
- 2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest at all times.
- 2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.
- 2.4. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 2.5. The governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

### 3 The governance framework

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

#### The Council's vision and priorities for Birmingham

- 3.2. The Council has been on a journey to redefine its vision and purpose in serving the people of Birmingham, driving the necessary change to deliver a new Council role and relationship with the City, its citizens and its partners.
- 3.3. The Council's vision for the future of Birmingham is to create a city of growth, in which every child, citizen and place matters and to support this, the Council has set itself five clear priorities:
- **Birmingham is an entrepreneurial city to learn, work and invest in.**
  - **Birmingham is an aspirational city to grow up in**
  - **Birmingham is a fulfilling city to age well in**
  - **Birmingham is a great city to live in.**
  - **Birmingham residents gain the maximum benefit from hosting the Commonwealth Games.**
- 3.4. The Council's vision and priorities in terms of the contribution to strategic outcomes are set out in the Vision and Priorities 2018-2022 Plan (the Plan). The Plan was updated in 2018/19 and is available on the Council's website.
- 3.5. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with Cabinet Members and Members from opposition groups, citizens and partners, surveys and consultations.
- 3.6. A set of service delivery measures, that are capable of being benchmarked, aligned to service plans and Council priorities have been put in place for 2018/2019. These measures are designed to ensure improvement in service quality and outcomes for the citizens of Birmingham, some have a particular focus on disadvantaged groups. Regular monitoring and reporting against these measures ensures that weaknesses in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.
- 3.7. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.
- 3.8. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required



by the Best Value duty. Achievement of value for money is part of the Council's long term financial strategy.

- 3.9. The Financial Plan 2018+ was developed to align with the Council's Delivery Plan. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Council Plan and Budget 2018+.
- 3.10. A robust system to monitor the achievement of savings proposals and scrutiny by Council Management Team (CMT), Budget Board and Cabinet is in place and regularly undertook actions throughout the financial year to control spend. During 2018/19, the Council has over-hauled and strengthened its financial planning and control framework and reasserted 'grip' of the financial position with a series of interventions that have enabled the Council to manage out a £28m in-year pressure since the May 2018 election. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits.
- 3.11. Over the last three years both the Birmingham Independent Improvement Panel (BIIP) and the statutory auditors of the Council have recognised the risks and pressures facing the Council as it looks to become financial sustainable. In response, the Council has sought to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as a contingency funding in case of savings delivery difficulties.
- 3.12. The Council's workforce has experienced many changes and challenges as the workforce is modernised. From transforming the customer service function and developing a Citizen Access Strategy to facing some of the challenges driven by being a large employer such as equal pay cases and reviews of terms and conditions, it is recognised the workforce has been facing change over the last 10 years.
- 3.13. External reviews, including the '*Kerslake Review*', highlighted many areas for improvement – much of which the Council already knew about itself – including the lack of a corporate strategic picture and therefore workforce reductions which were not focused in terms of delivering savings.
- 3.14. As the vision for the future priorities is now clearer, the workforce and employment model needs to be reshaped to ensure that the Council is fit for that future through the Council's Workforce Strategy, agreed by Cabinet in 2018. The strategy will guide a much stronger approach to staff engagement, empowerment and culture change.
- 3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).
- 3.16. The Council has a strong public, third sector, and business engagement role. A new Community Cohesion Strategy has been launched and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

- 3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority. As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the follow the Council's governance processes as Accountable Body , managed and monitored through Programme Delivery Board and thematic Pillar Boards, with regular reporting to the LEP Board.
- 3.18. Change across local government continues. A Mayor was elected on 6 May 2017 to head the West Midlands Combined Authority (WMCA). The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield.
- 3.19. The Cabinet Committee - Group Company Governance, works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees.
- 3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Trust is a wholly owned company of the Council and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April 2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.
- 3.21. The Council's Constitution, which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).
- 3.22. The Council facilitates policy and decision-making via an Executive Structure. There were ten members of Cabinet for the 2018/19 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:
  - Cabinet Member – Children's Wellbeing;
  - Cabinet Member – Clean Streets, Waste and Recycling;
  - Cabinet Member – Health and Social Care;
  - Cabinet Member – Homes and Neighbourhoods;
  - Cabinet Member – Finance and Resources;
  - Cabinet Member – Social Inclusion, Community Safety and Equalities;
  - Cabinet Member – Transportation and Environment;
  - Cabinet Member – Education, Skills and Culture.

- 3.23. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.
- 3.24. The CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.
- 3.25. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.
- 3.26. CBMC also discharges the Council's functions in relation to parishes and parish councils.
- 3.27. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

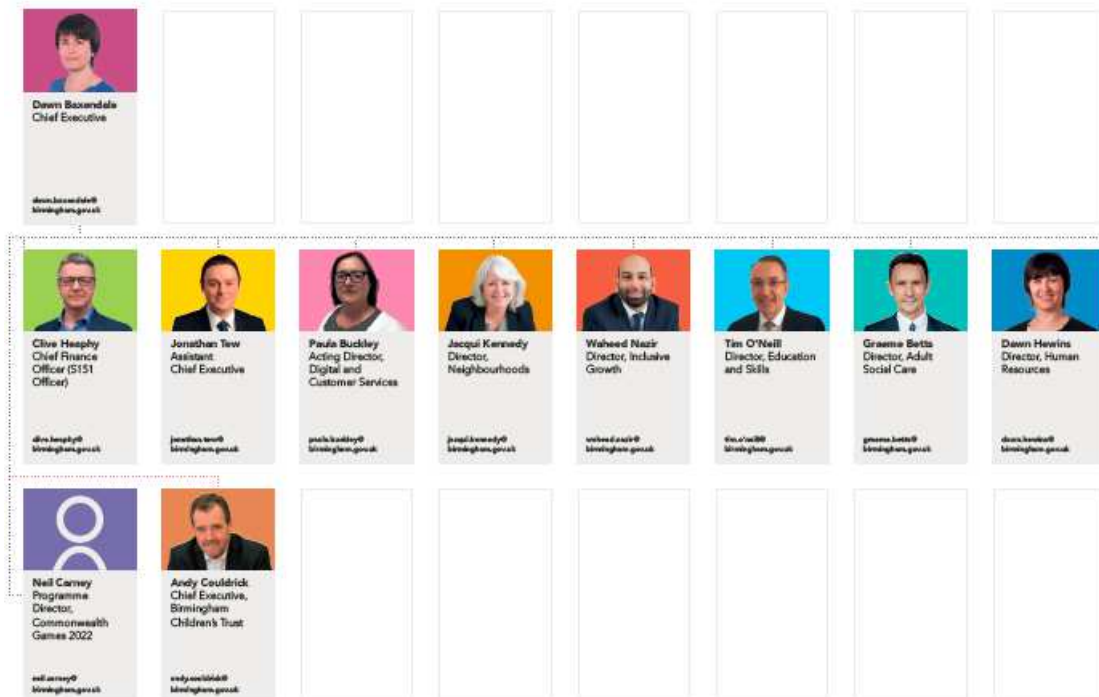
#### Roles, Values and Standards of Conduct and Behaviour of Members and Officers

- 3.28. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.
- 3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.
- 3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

#### Management Structure

- 3.31. Until 21 January 2019, the Council operated through six Directorates, Adult Social Care and Health, Children and Young People, Economy, Finance and Governance, Place and Strategic Services with an HR directorate from July 2018.
- 3.32. A senior management restructure took place in 2018/19 resulting in revised directorate names and responsibilities with effect from 21 January 2019.

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



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

- Dawn Baxendale was appointed as permanent Chief Executive and started with the Council on 1 April 2018.
- Dr Tim O'Neill was appointed as Director – Education and Skills
- Angela Probert left the Council on 15 February 2019 and the post of Chief Operating Officer was deleted.

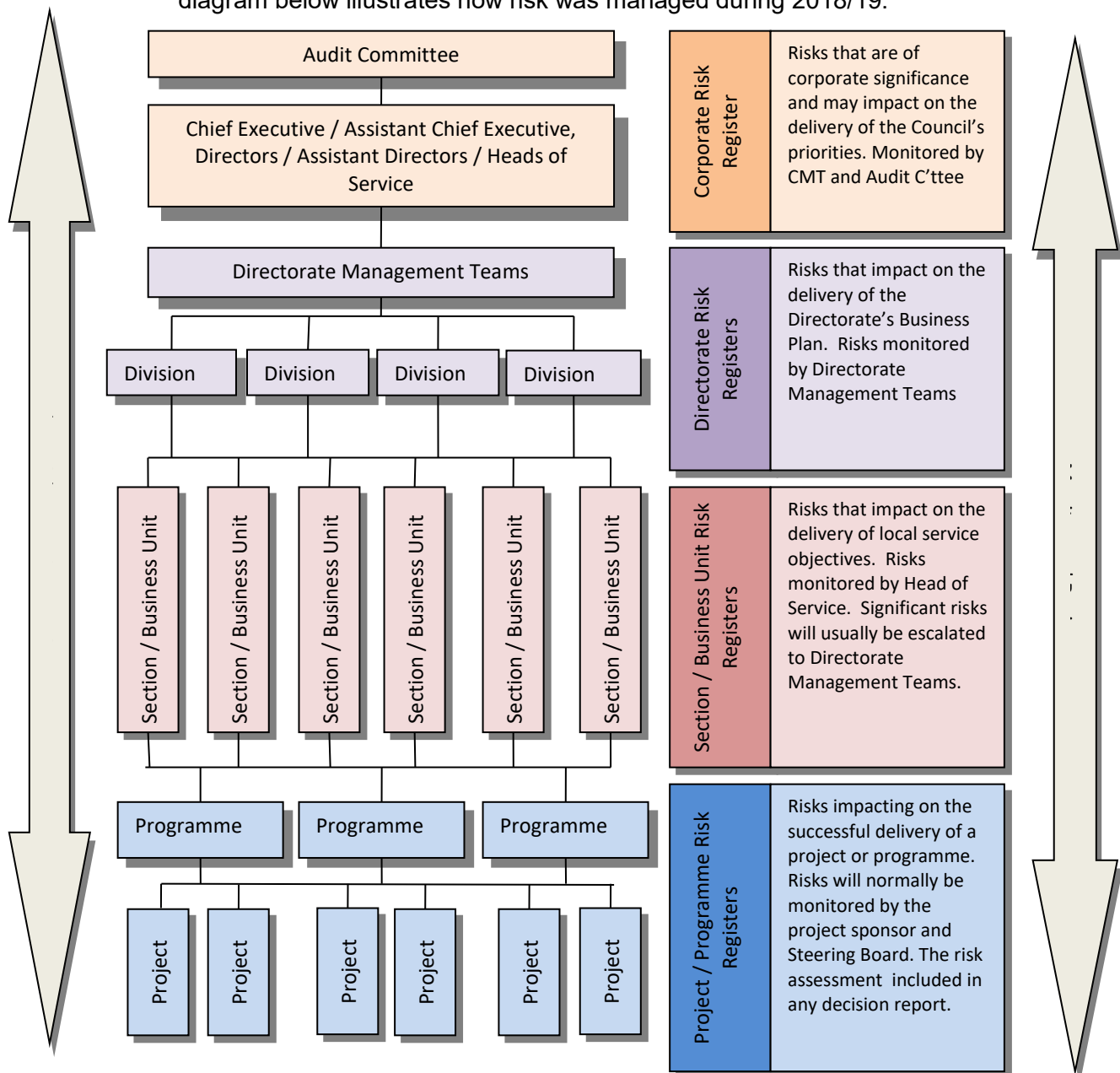
#### Financial Management Arrangements

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

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

### Scrutiny, Accountability and Risk Management

- 3.36. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.
- 3.37. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.
- 3.38. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.
- 3.39. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2018/19:



- 3.40. The Risk Management Framework is available on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported to the Audit Committee three times per year. CMT identifies new risks to the Council, and the draft Corporate Risk Register update is reported to it monthly. CMT challenge the updated information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.
- 3.41. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's systems. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery.
- 3.42. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

#### Birmingham Independent Improvement Panel (BIIP)

- 3.43. Following Lord Kerslake's review of the Council's corporate governance (published in December 2014), the Birmingham Independent Improvement Panel (BIIP) was set up in January 2015. The Council and BIIP have worked closely together from this time.
- 3.44. In a letter to the Secretary of State for Communities and Local Government in April, the BIIP confirmed it had officially stood itself down in March 2019.
- 3.45. In its April 2019 report, the BIIP acknowledged that "there has been meaningful progress over the last 10 months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deep entrenched problems"
- 3.46. The letter recommended the Minister for Housing, Communities and Local Government "Put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel." The Council is planning to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements.

#### Member Development

- 3.47. The Members Development Strategy 2018-2022 aims to provide a member development programme that will ensure all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21<sup>st</sup> 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.
- 3.48. Councillors are at the heart of the Council and the organisation as a whole will support the member development strategy. It will be overseen by CMT and the Member Development Steering Group; coordinated through the Members Development Team, consisting of officers from Legal and Governance. This collaborative approach will ensure ownership of the strategy by the Council as a whole.

- 3.49. 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.
- 3.50. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations.
- 3.51. The Members' Development Programme 2018/19 was delivered around three areas as outlined in the table below:

New Member Induction	Role Specific Training	On-going Member Development
<b>Aim: To give oversight of Council processes and procedures to enable new members to get quickly up to speed with their role.</b>	<b>Aim: ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees.</b>	<b>Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities.</b>
Understand role and responsibilities, the Council's values & behaviours, define new development offer.	Planning, Licensing and Scrutiny training provided to support members.	Skill development (e.g. mental health, first aid); networks and external courses.
Code of conduct and the constitution.		On-going transformation (e.g. Children's Trust, apprenticeships, homelessness, universal credit).
Who's who in Birmingham, customer intelligence and access to IT and council services.		Community leadership including local leadership, tools for ward working).

#### Workforce

- 3.52. 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 2018/19, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:
- We put citizens first
  - We are true to our word
  - We act courageously
  - We achieve excellence

#### Engagement with the community and other stakeholders

- 3.54. 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.
- 3.57. In 2018 the Council held a "summer of engagement" including "Working Together in Neighbourhoods" and the Community Cohesion Strategy. "Forward together to build a fair and inclusive city for everyone" is the first Community Cohesion Strategy for Birmingham, developed in partnership with citizens, communities and organisations across the city.

#### 4 **Review of effectiveness**

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CMT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors, responding to the BIIP reports and other review agencies and inspectorates.
- 4.2. The Council published a Corporate Governance Improvement Plan and reported progress against planned actions, the most recent in March 2019.
- 4.3. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the '*Delivering Good Governance in Local Government: Framework*' (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.
- 4.4. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.
- 4.5. The Council's review of the effectiveness of the system of internal control is informed by:
  - Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;



- The work undertaken by Birmingham Audit during the year;
  - The work undertaken by the external auditor reported in their annual audit letter and Section 24 recommendations; and
  - Other work undertaken by independent inspection bodies.
- 4.6. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.
- 4.7. As in previous years the Birmingham Audit plan was compiled on the basis of professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.
- 4.8. The resulting work plan is discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.
- 4.9. From the work undertaken by Birmingham Audit during 2018/19 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. This assurance also needs to be taken in context of the findings from the Birmingham Improvement Panel, External Audit and CIPFA's review into financial management, all of which limit my overall assurance."* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.
- 4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CMT. The more significant of these are set out in the section entitled '**Significant governance issues 2018/19**' below.
- 4.11. The internal audit function is monitored and reviewed regularly by Audit Committee. The Committee reviews management progress in implementing recommendations made in significant, high risk audit reports and against issues raised in the AGS through the Corporate Risk Register.
- 4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2018/19 including an integrated assessment of Health and Social Care on delayed transfer of care, corporate parenting and the Sustainability and Transformation Partnership.

- 4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CMT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.
- 4.14. The Monitoring Officer advises that there were 122 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2018/19 financial year.

## 5 **Review of 2017/18 governance issues**

- 5.1. The significant 2017/18 governance issues were considered by Audit Committee in June 2018, agreed as part of the Statement of Accounts in July 2018 and reviewed as part of the Corporate Risk Register updates in the 2018/19 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud and the Local Government Ombudsman Annual Review.
- 5.2. Children's Safeguarding issues were considered by Cabinet and the Schools, Children and Families O&S Scrutiny Committee. This O&S Committee also considered issues such as the Children's Trust, the Education and Children's Social Care Improvement Journey, child poverty and children missing from home or care.
- 5.3. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and Cabinet received an update on the implementation of the Homelessness Reduction Act.
- 5.4. Regular Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.
- 5.5. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review.

## 6 **Significant governance issues 2018/19**

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

Issue No	Governance Issue	Mitigation Action / Proposed Action
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Issue No	Governance Issue	Mitigation Action / Proposed Action
1	<p><b>Financial Resilience</b></p> <p>The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council.</p> <p>Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'.</p> <p>Given the Council is in the ninth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high.</p>	<p>Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting.</p> <p>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.</p>
2	<p><b>Major Projects</b></p> <p>The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example:</p> <ul style="list-style-type: none"> <li>• Working with neighbouring authorities in the West Midlands Combined Authority</li> <li>• Strengthening partnership working as Birmingham works towards hosting the Commonwealth Games 2022.</li> <li>• Working with private sector partners on major developments in the City such as Paradise.</li> <li>• Birmingham Children's Trust.</li> </ul>	<p>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.</p> <p>The Council is reviewing the way it works with its partners - working equally to a common shared purpose.</p> <p>Children's Services have moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year.</p> <p>In the light of weaknesses identified in the Council's role as accountable body for the LEP, a joint protocol is being developed to define relationships more formally so that there is greater clarity of role. Strengthening and tightening capital financial controls. Closely monitoring expenditure on major projects to ensure projects are achieved on time and within budget.</p> <p>Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
		robust business cases and shadow working arrangements.
3	<p><b>The Improvement Agenda</b></p> <p>The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies.</p> <p>Review of services and associated budgets will require significant and substantial changes to the way services are provided, both internally and when working with other service providers.</p>	<p>A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.</p> <p>In the forthcoming year the significant planned budget reductions will increase pressure on services, which will need to be re-shaped and adopt more efficient ways of working to mitigate and manage this.</p> <p>In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future.</p>
4	<p><b>Homelessness and Safety Implications for Tower Blocks</b></p> <p>The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.</p> <p>Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.</p>	<p>Service redesign including reconfiguration of the frontline service, enhanced staffing levels and a new IT system in place from January 2019.</p> <p>A project plan has been produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures. This includes :</p> <ul style="list-style-type: none"> <li>• A programme to fit sprinkler systems to 213 high rise blocks over a 3 year period.</li> <li>• A programme to carry out fire risk assessments to all communal areas annually.</li> </ul>
5	<p><b>Asset Condition and Sufficiency</b></p> <p>There is an aging schools estate with some assets that are beyond repair.</p> <p>The demand for secondary school</p>	<p>Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
	<p>places is beginning a period of sustained growth, requiring a large number of additional places to meet our statutory duty for sufficiency.</p> <p>Many operational assets are in very poor condition following years of budget restrictions and lack of investment</p>	<p>The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development.</p>
6	<p><b>Commonwealth Games</b>          Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.</p>	<p>The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners to build robust and collaborative governance arrangements.</p>
7	<p><b>Workforce</b>          Recent industrial disputes in the Waste Service and Enablement Service potentially impacting on the Council's efforts to modernise its services.</p> <p>Radical change is required to the culture and behaviours of the organisation and implementation of more effective and streamlined organisational structures which promote innovation, financial resilience and accountability.</p>	<p>The Council will engage positively with a joint working group of trades unions to review its waste service.          The Council will commission an independent review of its waste service and act on its findings.</p> <p>A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.</p>
8	<p><b>Contract Management</b>          Intelligent Client Functions may not be mature enough potentially leading to a number of contracts underperforming or developing risks to service provision.</p> <p>The corporate risk register monitors contractual risks in relation to Early Years, Travel Assist and the Highways PFI contract.</p>	<p>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.</p> <p>On-going identification of mitigating actions to reduce the level of risk</p>

- 6.2. These matters are monitored through the Corporate Risk Register, CMT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.
- 6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....  
Councillor Ian Ward  
Leader of the Council

Signed .....  
Dawn Baxendale  
Chief Executive

## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

**Report to:** AUDIT COMMITTEE

**Report of:** Assistant Director, Audit & Risk Management

**Date of Meeting:** 18<sup>th</sup> June 2019

**Subject:** Birmingham Audit Annual Report 2018/19

**Wards Affected:** All

## 1. PURPOSE OF REPORT

1.1 This report is the culmination of the work completed during the course of the year and provides an objective annual opinion on the adequacy and effectiveness of the systems of internal control. It highlights any significant issues that have arisen from internal audit activity during the year.

1.2 The report provides Members with information on inputs, outputs and performance measures in relation to the provision of the internal audit service during 2018/19, and compliance with the requirements set out in the Public Sector Internal Audit Standards (PSIAS).

1.3 It also sets out the Internal Audit Charter and Internal Audit plan for 2019/20.

## 2. RECOMMENDATIONS

2.1 Members are asked to accept this report and the annual assurance opinion for 2018/19.

2.2 Members are asked to approve the 2019/20 Internal Audit Charter.

### **3. LEGAL AND RESOURCE IMPLICATIONS**

- 3.1 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.

### **4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES**

- 4.1 Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the Internal Audit plan.
- 4.2 Equality Analysis has been undertaken on all strategies, policies, functions and services used within Birmingham Audit.

### **5. COMPLIANCE ISSUES**

- 5.1 Council policies, plans and strategies have been complied with.

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**Sarah Dunlavey**

**Assistant Director, Audit & Risk Management**

**Contact officer: Sarah Dunlavey, Assistant Director, Audit & Risk Management**

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# Birmingham Audit Annual Report 2018/19

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18<sup>th</sup> June 2019

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5. Internal Audit Charter
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7. Grant Certification

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**Appendix B: Reports Issued During 2018/19**

**Appendix C: Internal Audit Charter 2019/20**

**Appendix D: Internal Audit Plan 2019/20**

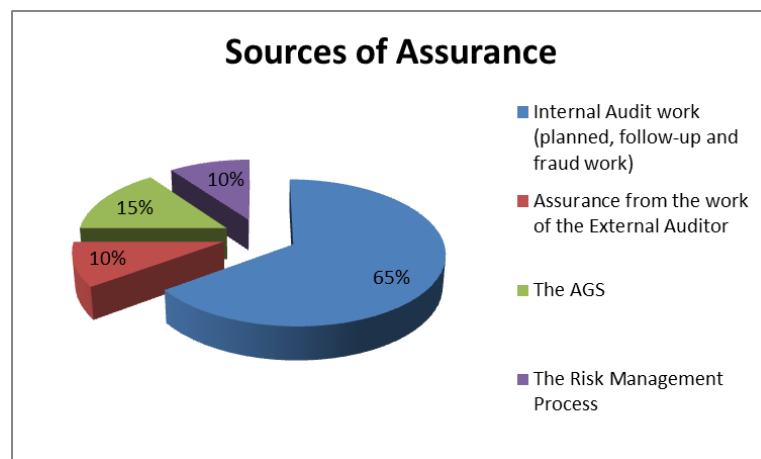
## **1. Background**

- 1.1 The 2018/19 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.
- 1.2 The Council continues to go through significant change, the drivers for this change being both organisational and financial. During a period of change internal controls can become unstable and ineffective, it is important that any increased business risks are identified and appropriately managed. Our 2018/19 audit plan reflected these changes by concentrating on those areas that were considered to be of highest risk. We have applied the same approach to our 2019/20 audit planning process.

## **2. Assurance Opinion**

- 2.1 The audit plan is prepared and delivered to enable me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). My opinion will form part of the Annual Governance Statement (AGS), which the Council is legally required to produce.
- 2.2 As my opinion is based on professional judgement, backed up by sample testing, I can only ever provide, at best, reasonable assurance. No process can provide an absolute assurance that the systems of internal control are adequate and effective in managing risk and meeting the Council's objectives. If serious issues are identified in the course of our work that have, or could have, prevented objectives to be met, then my opinion may be qualified.
- 2.3 Our work is carried out to assist in improving control. Management is responsible for developing and maintaining an internal control framework. This framework is designed to ensure that the Council's resources are utilised efficiently and effectively, risks to meeting service objectives are identified and properly managed; and corporate policies, rules and procedures are adequate, effective and are being complied with.

- 2.4 The model used to formulate the end of year opinion places reliance on assurance provided from other parties and processes. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion. The model is an evolving one which changes from time to time as the intelligence we collect on sources of assurance develops. The opinion for 2018/19 is based on the following sources of assurance and weightings:



- 2.5 Based on the audit work undertaken I am able to provide a **reasonable assurance on the core systems of internal controls evaluated**. As in any large organisation, our work did identify some significant issues that required action. All significant issues have been reported to the appropriate Director during the year. A summary of the significant findings from our work (including the main financial systems), is included as Appendix A. This opinion should be considered in light of the governance findings raised by the Birmingham Independent Improvement Panel and the value for money concerns and recommendations made under Section 24 of the Local Audit and Accountability Act 2014 (the Act) raised by the Council's External Auditor, which impact upon my overall assurance.

The BIIP stepped down on 31<sup>st</sup> March 2019. Within its final report the Panel acknowledge the meaningful progress that the Council has made since June 2018 and the huge amount of work that it is doing to tackle the problems. The Panel, and the Council within its Improvement Stock-take Report, recognise the ongoing risks and challenges that continue to be faced and the need to continue the improvement journey whilst seizing the significant opportunities available to the Council, notably the Commonwealth Games 2022.

Within their Audit Findings Report and Annual Audit Letter (July 2018) for the year ending 31<sup>st</sup> March 2018 the Council's External Auditors issued a number of Statutory recommendations under Section 24 of the Act and conclude that they are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and as a consequence give a qualified 'adverse' conclusion. Whilst recognising the significant progress that had been made External Audit issued additional recommendations under Section 24 of the Act in March 2019 as they concluded that the Council faced a number of significant governance challenges.

### **3. Added Value**

3.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include:

- Our Schools' audit team has continued to work closely with the Education and Skills Directorate to support delivery of the improvement across Birmingham Schools.
- We have worked in partnership with the Education and Skills Directorate and Adult Social Care Directorate Leadership Teams to deliver effective solutions to a number of fundamental service delivery challenges, including establishing the processes for the Annual Review of the Children's Trust, undertaking a review of in-year school admissions, and helping in the development and strengthening of the governance framework surrounding the Better Care Fund.
- Supporting the Quality, Impact & Outcomes Sub Group of the Birmingham Safeguarding Children Board (now known as the Birmingham Safeguarding Children Partnership) in their work to safeguard and promote the welfare of Birmingham's children.

- We have contributed to the Serious and Organised Crime (SOC) in Procurement Project Group, and we have undertaken specific pieces of work to help assess the risk to the Council, and actions required to mitigate this risk, which include better liaison with external agencies.
- Developed an automated programme of data matching, which allows fraud and error to be detected within 24 hours. As a result services that are being provided incorrectly can be stopped quickly. This helps preserve resources and reduce the level of fraud and error.
- Supporting the IT Transition programme.

#### **4. Quality, Performance & Customer Feedback**

4.1 Under the Accounts and Audit Regulations the Council must maintain an effective system of internal audit to evaluate its risk management, control and governance processes. An annual review of the system of internal audit is no longer required under the Accounts and Audit Regulation 2015. However, Internal Audit must comply with the requirements laid out in the PSIAS.

4.2 The PSIAS became effective from 1<sup>st</sup> April 2013, these standards set out the fundamental requirements for the professional practice of internal auditing within the public sector. The standards replaced CIPFA's Code of Practice for Internal Audit in Local Government.

#### **4.3 Quality Assurance**

4.3.1 The provision of a quality service continues to be important. In line with the requirements of the PSIAS a Quality Assurance and Improvement Programme (QAIP) has been developed. The programme requires both internal and external assessments of internal audit effectiveness to be undertaken to ensure compliance with PSIAS and internal quality standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

4.3.2 In line with PSIAS requirements a full external assessment of Birmingham Audit's compliance to the mandatory standards was completed in July 2016. This assessment identified that:

*“Birmingham City Council’s Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards” and that “the Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control”.*

During the year a PSIAS self assessment has been completed, this self assessment confirmed our ongoing compliance with the standards.

- 4.3.3 During the year, we retained our accreditation to the internationally recognised information security standard ISO27001:2013. An external inspection of our processes was undertaken in September 2018, the assessment concluded:

*‘...management systems continue to operate effectively and are well defined by a comprehensive set of well-established policy and procedure documents that have been published in an easily accessible manner. A culture of continual improvement is evident and this is well demonstrated in the Performance Dashboard that records improvements interventions as well as a defined set of key performance indicators for each of the service areas.’*

Additional, internal quality audits on our ISO processes are undertaken annually, most recently in March 2019. As in previous years, only minor issues were identified, actions have been taken to correct these.

#### 4.4 **Inputs**

- 4.4.1 The 2018/19 internal audit plan contained 4681 productive days. During the year 4527 days were actually delivered. The variance between planned and actual days has arisen due to a higher level of sickness than anticipated, the impact of saving proposals, and in year vacancies. I am satisfied that there were adequate staffing resources available to me to deliver the audit plan and form an assurance opinion.

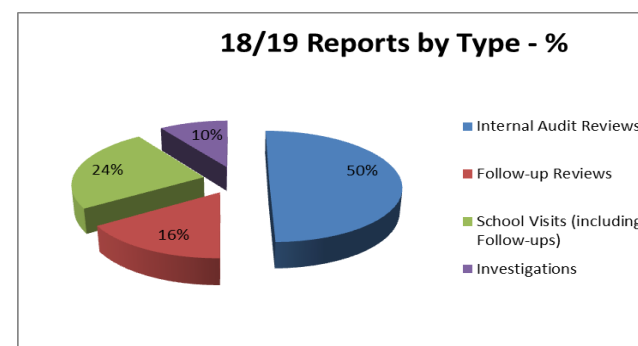
4.4.2 The actual days delivered in 2018/19 compared to those planned is detailed in the table below:

	18/19				
	Planned		Actual		Variance
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>4527</b>	<b>(154)</b>
Main financial systems	16%	730	15%	663	(67)
Business controls assurance	39%	1830	38%	1724	(106)
Investigations	18%	830	20%	904	74
Schools (Non Visits)	2%	105	2%	110	5
Schools (Visits)	15%	720	14%	639	(81)
Follow up work	3%	150	3%	141	(9)
Ad-hoc work	4%	186	5%	203	17
Planning & reporting	3%	120	3%	143	23
City initiatives	0%	10	0%	0	(10)

## 4.5 Outputs

4.5.1 During the year we issued 249 final reports, containing 2326 recommendations. For comparison purposes during 2017/18 we issued 296 final reports containing 2482 recommendations.

<b>Reports by Type</b>	<b>17/18</b>	<b>18/19</b>
Internal Audit Reviews	134	124
Follow-up Reviews	29	40
School Visits (including Follow-ups)	93	61
Investigations	40	24
<b>Total</b>	<b>296</b>	<b>249</b>

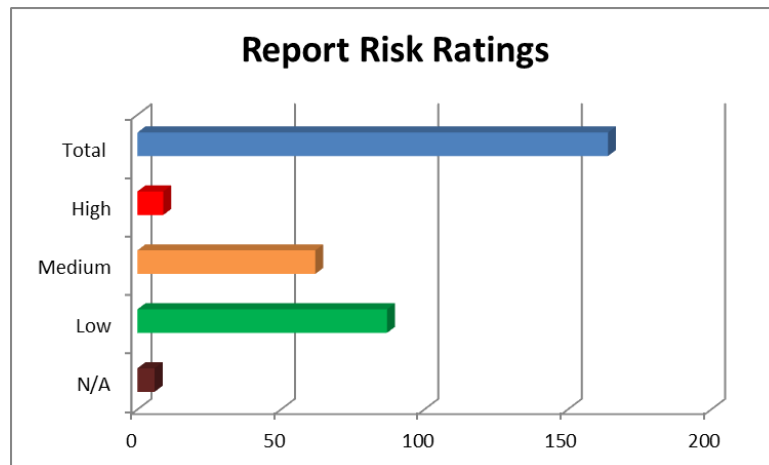


A full list of the audit reports issued during the year is detailed in Appendix B.

4.5.2 Audit and follow up reports are given a risk rating of 1 - 3 to assist in the identification of the level of corporate importance. The key to the ratings given is:

1. Low (Green) - Non-material issues
2. Medium (Amber) - High importance to the business area the report relates to, requiring prompt management attention. Not of corporate significance
3. High (Red) - Matters which in our view are of high corporate importance, high financial materiality, significant reputation risk, likelihood of generating adverse media attention or of potential of interest to Members etc.

4.5.3 Of the 164 reports (124 Internal Audit and 40 Follow-up Reviews) issued during the year, 9 were given a high risk rating, 62 had an medium level rating, 87 had a low rating, and 6 related to non-assurance work.





4.5.4 On a monthly basis a list of all final reports issued, together with their Council risk rating, is sent to Members of the Audit Committee, Cabinet and the Council Management Team. Under the agreed protocol, Members can request to see a copy of any report.

#### 4.6 **Performance and Customer Feedback**

4.6.1 As at 31<sup>st</sup> March 2019 we had completed 98% of planned jobs against an annual target of 95%.

4.6.2 Throughout the year we have sought feedback from our customers by attending management teams and capturing comments via our ISO processes.

4.6.3 Both internal and external customers continue to provide positive feedback on the services provided, examples include:

*‘.....we cannot thank you enough for your assistance with this case, you’ve gone above and beyond.’*

*‘.....I just wanted to pass on my gratitude..... was professional throughout the process and conducted the audit in a manner that was challenging and supportive.’*

*‘.....I’d like to thank you for your cooperative and professional approach to this audit, which has been a useful exercise.....’*

#### 4.7 Corporate Fraud Team

4.7.1 In common with other public bodies, the Council has a duty to protect the public purse. The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future. A sub-team within CFT is established to specifically tackle 'application based' fraud, primarily related to Social Housing and Council Tax. In response to legislative changes and reductions in resources 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. 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. We are continuing to develop analytical tests designed to detect fraud and error.

4.7.2 The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) during the year.

	2017/18	2018/19
Number of outstanding investigations at the beginning of the year	10	28
Number of fraud referrals received during the year	115	109
Number of cases concluded during the year	97	123
Number of investigations outstanding at the end of the year	28	14

4.7.3 All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned. We have continued to ensure that our processes are as lean as possible to ensure we can balance the caseload against available resources.

- 4.7.4 In addition to the above, the team have carried out proactive exercises looking at attendance and at serious and organised crime in procurement, as well as co-ordinating the processing of data matches derived from the National Fraud Initiative. Data analytical techniques have also been used to review and identify any potentially fraudulent transactions. The Team have delivered fraud awareness training and have issued various bulletins to raise awareness of fraud.
- 4.7.5 The Team have continued to work with directorate staff to implement the anti-fraud strategy for housing. This includes providing training and support to front line staff in the use of the data warehouse to verify details submitted on housing / homeless / Right to Buy applications. Last year the team recovered 64 properties and cancelled 212 housing applications prior to letting. The team also identified Housing Benefit overpayments totalling £858,202 and Council Tax changes of £559,534. This shows that, in addition to the obvious social benefits deriving from the work, there is also a real financial saving from preventing and / or terminating fraud.
- 4.7.6 Our annual fraud report will be presented to Committee Members at the September meeting.

## **5. The Internal Audit Charter**

- 5.1 The Public Sector Internal Audit Standards requires the purpose, authority and responsibility of the internal audit function to be formally defined in an Internal Audit Charter.
- 5.2 On an annual basis Members are asked to approve the Internal Audit Charter. The charter for 2019/20 is attached as Appendix C. It sets out the objectives; framework and services delivered by Birmingham Audit, and details the relationship with the Audit Committee, our business plan objectives, the statutory requirements around our service and outlines the rationale behind the annual audit plan.

## **6. Internal Audit Plan**

- 6.1 The 2019/20 plan contains 4691 days (including a vacancy on the Schools Audit Team which we are currently attempting to fill). This compares to 4,681 in 2018/19. We have been able to maintain this level of productive resources as there was no requirement this year to make a specific allowance for maternity / paternity leave and the appointment of an audit apprentice.

- 6.2 The 2019/20 plan was approved by members at the March Audit Committee meeting. The table below shows a summary split of audit days over the different categories of work we undertake, previous year information is given for comparison purposes. A more detailed breakdown of the plan is given in Appendix D.

	<b>18/19</b>	<b>18/19 Days</b>	<b>19/20</b>	<b>19/20 Days</b>
<b>Number of Audit Days in the annual plan</b>	<b>100%</b>	<b>4681</b>	<b>100%</b>	<b>4691</b>
Main financial systems	16%	730	15%	725
Business controls assurance	39%	1830	38%	1770
Investigations	18%	830	18%	830
Schools (Non Visits)	2%	105	1%	60
Schools (Visits)	15%	720	15%	720
Follow up work	3%	150	4%	175
Ad-hoc work	4%	186	6%	286
Planning & reporting	3%	120	3%	120
City initiatives	0%	10	0%	5

- 6.3 During the year we will continue to provide the monthly audit report schedules to Audit Committee Members. Under the agreed protocol Members can select and view any report. A half-yearly report will also be produced to update Members on progress with the delivery of the 2019/20 plan.

## 7. Grant Certification

- 7.1 In addition to controls assurance reviews I am required to provide audit certificates, verifying the expenditure incurred, for a number of grants that have been awarded to the Council.

<b>Grant Certificates Issued</b>
Troubled Families
Scambusters
Growth Hub
Highways Maintenance Challenge Fund
Integrated Transport Grant

- 7.2 I have also been formally appointed as the First Level Controller for a number of European Grants. The First Level Controller is a formally appointed independent role that is required to provide a guarantee that the expenditure incurred under the programme is eligible and correctly accounted for.

<b>European Grants – First Level Controller</b>
Pure COSMOS – Public Authorities enhancing competitiveness of SMEs
Urban M – Stimulating Innovation through Collaborative Maker Spaces
Urban-Regen-Mix
TRIS – Transition Regions towards Industrial Symbiosis
SPEA – Supporting Public Procurement of Innovative Solutions

## **Summary of Significant Findings & our work on the Main Financial Systems**

### **1. High Risk Reports**

During 2018/19 we issued 9 reports where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in these reports are detailed below:

#### **Appointee and Court Deputy Service**

**Council Risk Rating: High****Assurance: Level 4****RAG:**

The Council provides an Appointee and Court Deputy Service (ACDS) for vulnerable adults who are unable to manage or make decisions about their financial affairs and do not have any family or an appropriate person to handle their affairs on their behalf.

At the request of the Head of the Client Financial Services an audit to assess the adequacy and effectiveness of key processes was undertaken. We identified significant issues which impacted on the effectiveness of ACDS in ensuring the financial affairs and assets of all vulnerable adults are adequately and effectively managed at all times. The weaknesses meant that significant financial and reputational risks had arisen for the Council, and the potential for system abuse existed.

A subsequent follow-up review confirmed that appropriate action had been taken to strengthen processes and procedures and that these had been embedded. Management arrangements were found to be effective with appropriate segregation of duties.

#### **General Data Protection Regulation (GDPR) – Procurement and Contract Management**

**Council Risk Rating: High****Assurance: Level 4****RAG:**

The Data Protection Act 2018 (DPA 2018) came into force in May 2018, implementing the EU General Data Protection Regulation (GDPR). Whilst established key principles of data privacy remained relevant in the new legislation, it also introduced a number of changes that affect commercial arrangements with suppliers. The GDPR specifies that any processing of personal data, by a Processor, should be governed by a contract with certain provisions included. Therefore, changes need to be made to existing contracts in order to bring them in line with the new regulations.

Our review identified that the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with

the DPA 2018, were inadequate. Although some action had been taken to ensure the Council was compliant, there was still much work to do.

The Council has now established an information assurance programme. Third party supplier privacy risk is a specific work theme within this programme. Progress is reported through to the Information Assurance Board and the Senior Information Risk Officer on a regular basis.

### **Supplier Financial Risk - Embedding Risk Methodology**

**Council Risk Rating: High    Assurance: Level 4    RAG: **

The collapse of Carillion highlighted the need for organisations, including the Council, to have appropriate processes in place to continuously monitor the financial health of contractors and to be prepared if a supplier was to become insolvent. In 2014, Commissioning and Procurement Services (CPS) developed a Supply Chain Risk Methodology (SCRM), which includes a financial health check. The SCRM was due to be refreshed and relaunched in August 2018.

Although the revised SCRM was presented to the Commissioning and Contract Management Board in August 2018, we found that action had only recently started to take place across directorates to embed the methodology within existing contract management arrangements.

A follow-up review to assess progress with the implementation of the SCRM has been scheduled within the 2019/20 audit plan.

### **Early Years Health and Wellbeing Contract**

**Council Risk Rating: High    Assurance: Level 4    RAG: **

In January 2018 the Children and Young People Directorate entered into a contract with Birmingham Community Health Care NHS Foundation Trust (BCHT) for the delivery of its early years health and well-being services. This is a 5 year contract with an annual value of approximately £33M with BCHT sub-contracting services to 4 partners, with forecast savings of £10.1M. We identified significant concerns with the mobilisation and management of the contract, in particular:

- the late decision to second rather than TUPE staff;
- achievement of the forecast savings;
- lack of budget monitoring for the first 5 months;

- no ICF, or capacity in the directorate to monitor the contract;
- KPIs not fit for purpose; and
- the risk of claw back of grant funding from the DfE due to a change in the use of some properties.

### **Children's Trust Client – Complaints Management**

**Council Risk Rating: High**

**Assurance: Level 4**

**RAG:**



In April 2018, the Birmingham Children's Trust (BCT) was launched to provide children's social care services on behalf of the Council. BCT is a wholly owned company (WOC) and was created to deliver improvements in children's services in response to significant external criticism. Overall responsibility for children's services is still retained by the Council, and therefore a key priority for the Directorate is ensuring that BCT delivers the required improvements. It is therefore important that the Directorate has adequate processes in place to monitor, measure and manage the performance of BCT, which includes ensuring that all complaints are properly managed and resolved.

We identified a number of concerns in the processes for monitoring the resolution of complaints received regarding the BCT. In particular; there were no procedures covering the processes to follow within the Directorate, no KPIs to measure performance, inadequate reporting, and a lack of understanding and capacity by those managing this process.

Since issuing the draft report, the directorate has introduced additional controls. It has been agreed that a follow up audit will be undertaken in the new financial year to review the revised system which it is hoped will enable us to provide an improved assurance level and a lower risk rating.

### **IT Emerging Issues - Fake E Mail Invoice Scam**

**Council Risk Rating: High**

**Assurance: Level 3**

**RAG:**



Email fraud is the intentional deception made for personal gain or to damage another individual through email. Almost as soon as email became widely used, it began to be used as a means to defraud people. Scam emails are currently one of the most common cyber security threats with over 400,000 phishing emails being reported to Action Fraud every year.

An incident occurred in June 2018 where a genuine Council invoice, which had been scanned as a PDF document and attached to an email was intercepted. The attacker used phishing techniques to convince the customer to pay the invoice into a rogue bank account, which ultimately resulted in



the loss of their funds. This was a very sophisticated fraud where the attacker convinced the customer that they were corresponding with a genuine Council email address. The incident has been reported to Action Fraud. It is believed that the attacker targeted the customer's Office 365 account, where poor user authentication controls had been adopted, placing rules to intercept relevant emails. There is no evidence that the Council's systems have been compromised.

### **Adult Education IT Systems replacement**

**Council Risk Rating: High    Assurance: Level 3    RAG: **

The Council provides a range of accredited and non-accredited training programmes at entry level, level 1 and level 2 through the Birmingham Adult Education Service (BAES). The objective of the training is to improve learners' employment prospects through the development of appropriate skills, health and well-being, and social and community cohesion. As part of an improvement programme their management information system and associated IT Infrastructure is being replaced and upgraded. We identified weaknesses within the project and budget management processes.

We have worked closely with the project to strengthen key processes in order to drive the project forward on a successful footing. The new system went live at the end of January.

### **Children's Trust Client – Service Delivery and Financial Performance Framework High Level Review**

**Council Risk Rating: High    Assurance: Level 3    RAG: **

A contractual framework has been established to monitor the work of the BCT which includes the setting of KPIs and the establishment of the Operational Commissioning Group (OCG) to review its progress on delivering rapid improvements in children's services. However, we did identify some governance concerns, in particular; no permanent senior capacity within the directorate to undertake an ICF; the absence of retained knowledge and expertise of children's social work within the directorate; no requirement for the Council to quality assure BCT's KPIs; the arrangements in place for the Council to access BCT's data, and out of date financial reporting.

**Improving Financial Management in Schools****Council Risk Rating: High****Assurance: Level 3****RAG:**

With a backdrop of continuing budgetary pressures, the number of schools with deficit budgets is increasing year on year. If this trend continues there will be a severe challenge to the directorate's capacity to manage this issue and could become a significant risk both financially and in terms of delivering high quality education. This has been recognised by the directorate and they have identified the need for a coherent and effective approach to improving financial management, and awareness, in schools.

We identified that the directorate has taken positive action to improve financial management within schools. This includes the establishment of the schools causing concern group, the requirement for schools to provide additional financial reports to improve monitoring and changes to the work of Schools Financial Services at individual schools. However, these have largely concentrated on managing schools already in financial difficulty rather than preventing them going into deficit. We identified that a significant number of schools were forecast to be in deficit if current spending patterns are maintained, the lack of regular strategic financial forecasting/modelling of LA schools as a whole.

**2. School Visits**

Throughout 2018/19 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of maintained schools. In response to feedback and changing priorities our programme of work was revised in November 2018 with increased emphasis on financial management systems and controls. We have also moved to a risk based plan as the original visiting programme had been completed. As a result we have seen an increase in higher risk rated reports.

As part of the audit, Governors and Senior Leadership are asked to complete a survey on their views on financial management within their school, the appropriateness of roles, core values and the culture of tolerance / mutual respect. Where concerns have been raised these have been appropriately escalated and support provided. No significant concerns were identified from the surveys.

Overall we have continued to find that the majority of schools visited have effective systems of control in place, and staff and Governors are complying with key processes. There are areas for development which would improve strategic and operational delivery.

The main issues identified are:

- Financial Governance – weaknesses continue to be identified in the delegation framework in a proportion of schools. While these do not stop schools functioning effectively, it means that there is not the required clarity around financial responsibilities. Despite the re-launch of the updated Schools Financial Procedures Manual (SFPM) in November 2017, which includes revised model templates, we are still finding areas for development. Throughout the year we have seen an improvement in financial reporting to Governors and scrutiny and challenge by Governing Boards. The correct completion of pecuniary interest forms remains an ongoing issue in a number of schools, again new templates and guidance has been issued in the SFPM to support schools. The majority of schools are now completing their Schools Financial Value Standard on an annual basis but not always submitting it by the deadline or recording its approval. Also there is still a high proportion of schools that are not completing a statement of internal control, completing it incorrectly or not recording its approval.
- Budget Planning – whilst day to day financial management is well established a high proportion of schools are relying on their carry forward surplus to set a balanced budget. This poses a risk for future years when the surplus has been utilised unless action plans to reduce expenditure / increase income are developed. It is not surprising that this continues to be an area of significance as the financial challenges in schools grow. We continue to see an increase in schools forecasting deficits in future years. There is a need for Governors and Senior School Leadership to establish and agree mitigation action plans to address this risk.
- Purchasing – Compliance with the schools financial procedures manual purchasing procedures is an area of concern. There is a need for greater compliance procedures relating to the ordering and receipting of goods. Improvements are also required in respect of establishing appropriate divisions of duty.
- Delegated Powers – We have continued to find a need for greater compliance in the reporting of quotes to Governors. Improvements are also required in the monitoring of cumulative expenditure to ensure value for money is always obtained.
- Attendance – We continue to review the destination of pupils who leave schools in year. A small number of schools have not sought advice from the Children Missing in Education (CME) team when forwarding addresses are not provided for pupils moving abroad. When referrals are made to the CME team schools are not always waiting for confirmation that the pupil can be removed from roll before doing so.

- Safeguarding – Overall schools were well aware of their responsibilities in relation to safeguarding their children and take that responsibility seriously. There remains the need for improvement in respect of monitoring IT and internet use and undertaking due diligence prior to lettings to ensure users meet both safeguarding and the ‘No Platform for Extremism Policy’ requirements.

### **3. Risk Management**

Risk management continues to be embedded across the Council. The Corporate Risk Register is reviewed and challenged by the Council Management Team on a monthly basis. The register is also reported to the Audit Committee on a quarterly basis.

During the year the risk management policy, strategy and toolkit was reviewed and consolidated into a single risk management framework and a supporting e-learning module developed. Risks are currently being transferred into the new format that places greater emphasis on the actions needed to manage risks to their target level.

### **4. Corporate Governance**

The highest standards of corporate governance, public accountability and transparency have a significant impact on how well an organisation meets its aims and objectives. We carried out several audit reviews in 2018/19 covering governance in specific service areas.

As in previous years, we also reviewed the process used to produce and monitor the AGS which forms part of the Council’s accounts.

The AGS 2018/19 identifies eight significant issues: Financial Resilience; Major Projects; Improvement Agenda; Homelessness and Safety Implications for Tower Blocks; Asset Condition and Sufficiency; Commonwealth Games; Workforce and Contract Management.

## **5. Main Financial Systems**

The requirement to give an assurance on the adequacy and effectiveness of financial controls is a key responsibility for us. During 2018/19 we reviewed each of the main financial systems. A summary of our work in these areas is detailed below.

### **Financial Control / Ledger**

Our work on the key ledger controls did not find any fundamental or material issues, we are able to provide assurance that, in general, effective arrangements are in place. However, our work did identify some concerns around saving plans, including a lack of supporting evidence as to how the proposed savings had been calculated and how the required level of savings are becoming increasingly difficult to achieve without transformational change; together with a number of significant budget pressures.

Within their Audit Findings Report and Annual Audit Letter (July 2018) the Council's External Auditor gave an unqualified opinion on the Council's financial statements for the year ending 31st March. However, they did raise a number of statutory recommendations under Section 24 the Act. Whilst recognising that significant progress that had been made, they issued a number of additional statutory recommendations in March 2019. This included the need to:

- continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements;
- broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks
- keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
  - continuing to strengthen its level of reserves; and
  - completing the development of contingency plans to minimise the effects of these risks should they crystallise.

As part of the improvement agenda the Council has commissioned CIPFA to help in strengthening financial management across the whole council.

**Payroll and Human Resources (HR)**

The gross payroll cost has reduced in line with staffing resources. However the payroll related expenditure still represents a significant cost to the Council. The payroll system continues to be stable and functioning well.

Processes and controls are in place and operated by HR and Payroll staff to ensure that the payroll is accurate and that employees are paid correctly and statutory and voluntary deductions are correct. However, employees and their line managers are also responsible for accurately updating the system via Employee Self-Service and Manager Self-Service. In some cases, this can affect pay e.g. claims for overtime / additional hours worked, reductions in working hours, unpaid leave taken, maternity leave and sickness absences. Whilst the number of directorate overpayments remains low in comparison to the number of payments made, managers still need to ensure all changes are actioned on a prompt basis. Robust procedures are in place to recover any overpayments or agree appropriate payment plans.

Work undertaken on starters and leavers have found in the main that all the correct checks and controls are taking place.

**Accounts Payable (AP)**

The Accounts Payable (AP) team is responsible for the payment to suppliers for goods and services ordered by directorates and non-Academy schools. Processes and controls are in place to ensure that the council discharges its responsibilities and accurate payments are made to the correct supplier (target 95% of invoices paid within 30 days). In 2018/19 15,895 vendors were paid by AP including feeder file transactions totalling £2.66bn. Purchase card spend across the City Council was approximately £14.8m.

95 % of invoices were paid within 30 days of receipt into AP. 86% of invoices sent directly to directorates, rather than AP, were paid within 30 days of the invoice date.

Payment processes are well established with checks in place to prevent duplicate payments and enforce compliance. Our work identified that the quality of vendor master data records remains high.

## **Procurement**

Contract governance arrangements set the foundations for achieving a robust contract management environment that is efficient, innovative, good value and achieves continuous improvement in supplier performance. Our work during the year has continued to find weaknesses in governance arrangements, this has included a lack of contract management plans, and risk registers.

A contract management audit of the Early Years Health and Wellbeing contract identified significant concerns with the mobilisation and management of the contract. In particular, the late decision to second rather than TUPE staff, delays and mobilisation issues mean the forecast savings of £10m are unlikely to be achieved. Other issues identified included a lack of budget monitoring and Intelligent Client Function, unfit KPIs, front line staff dealing directly with children that had not had DBS checks, and the risk of claw back of grant funding from the DfE due to a change in the use of some properties.

A review requested by management into the Special Educational Needs Assessment and Review service's (SENAR) commissioning arrangements confirmed that the arrangements in place to commission and place children and young people with independent providers, are not robust or working effectively. Despite spend on independent providers being significant (£12m in 2018/19), a contractually based commissioning framework is not in place. Instead, spot purchases are made which increases the likelihood of a wide variation in charges, as well as providing the opportunity for providers to charge inflated prices. We also identified that the quality assurance and safeguarding checks of providers is inadequate.

Our review of progress in embedding the corporate Supply Chain Risk Methodology (SCRM) identified very little progress. The methodology, which includes an annual financial health check of contractors, is not widely embedded within contract management arrangements despite it being re-launched at Commissioning and Contract Management Board in August 2018. We will be undertaking further work in 2019/20 to review progress.

Our review of the arrangements in place within the Council's procurement and contract management processes, to ensure compliance with the Data Protection Act 2018, identified that they are currently inadequate. Although some action has been taken to ensure the Council is compliant, there is still much work to do, including revising procurement and contract management tools and templates. There is also currently insufficient due diligence at tender stage and during contract management to obtain sufficient guarantees regarding the contractors' ability to implement appropriate security measures.

**Accounts Receivable (AR)**

The invoicing and recovery of sundry debt is an essential part of the Council's financial management processes and reliance is placed on services achieving their sundry income targets. The value of sundry debts raised in 2018/19 was £698m (excluding Housing Benefit Overpayment debts Debts). Overdue sundry debts (over 90 days old) as at 02/04/2019 was £31.3m, including Housing Benefit overpayments.

The invoicing and recovery of debt is an essential part of the council's budget process and reliance is placed on income targets being met. Processes were found to be operating effectively, with appropriate system in place for raising bills and recovering debt.

**Benefits Service**

The Benefit Service is responsible for the administration and payment of Housing Benefit (HB) and Council Tax Support (CTS). Housing benefit payments are returned to the Council through the subsidy grant. The subsidy claim has to be accurate as a 1% error could cost the Council £3m reduction from Government. The Housing benefit caseload in March 2018 was 104,866 and at the end of March 2019 was 91,107 a reduction of approximately 12%. This is due to the introduction of Universal Credit which replaces means tested benefits for working age people, one of which is Housing Benefit. Housing Benefit Overpayments (HBOs) have reduced from March 2018 to March 2019 from approximately £21.5 m to £16.1m, with approximately £18.5m being recovered against a target of £15.4m at the end of March 2019. HBOs for citizens migrating over to Universal Credit can no longer be recovered via Housing Benefit but via the Universal Credit payments.

Council Tax Support (CTS) applications have remained at a static level during 2018/19 at approximately 123,000.

The processes and procedures reviewed were found to be operating as intended.



## **Council Tax & Non-Domestic Rates**

Council Tax is one of the ways Birmingham City Council (BCC) receives money to provide local services. The amount paid is based upon the value of the property. Reductions (discounts and exemptions) in the amount paid are applicable to certain people. In 2018/19 properties with a full year liability were raised totalling £391m with a year-end collection target of £365m (93.48%). The total amount collected as at 31/03/19 was £364m (93.19%), down by 0.29%. This is believed to be attributed to the roll out of Universal Credit and claimants not submitting CTRS claims. It is also believed that the waste dispute had an effect on council tax collection with residents withholding payments. The year-end collection target for 2019/20 is still set at 93.48%.

Non-domestic rates, or business rates, collected by Local Authorities are the way that those who occupy a non-domestic property contribute towards the cost of local services. Apart from properties that are exempt from business rates, each has a rateable value (RV) which is set by the Valuation Office Agency. There are various exemptions and reliefs that can be applied to empty properties, charities and small businesses. In 2018/19 properties with a full year liability were raised of £450,359,819 with a year-end collection target of £430m (95.52%). The total amount collected as at 31/03/19 was £429m (95.30%), down by 0.22%. The year-end collection target for 2019/20 is still set at 95.52%.

## **Rents**

At March 2019 there were 58,031 city tenancies with 17,973 arrears cases (30.97%) including those in receipt of Universal Credit. Rent accounts in receipt of Universal Credit equate to 6,474 accounts totalling approximately £6.4m (36.02% of the total arrears figure). The current tenancy arrears are approximately £16m.

Improvements have been made in the monitoring of Rent accounts. Recovery action is now targeted based on the level of arrears. The processes introduced are proving to be effective in ensuring that accounts with an arrears balance are actively monitored and increases in arrears are acted upon promptly.

## **6. Information Governance / Technology (IT) Issues**

Adequate and effective information technology (IT) and information governance controls need to be in place to ensure that the Council's information systems safeguard assets, maintain data integrity, and operate effectively to achieve the Council's goals or objectives. The Council has embarked on a major change programme which involves the transition of IT services from Capita back to the Council. Alongside this is a major undertaking, the Council is progressing a number of high profile projects that are aimed at transforming operational process and improving customer experience e.g. replacement of the Finance and HR system, implementation of the BRUM account for online citizen services, a new Social Care system and a refresh of the technical infrastructure.

Our work has been targeted to provide assurance over the areas of greatest risk. The findings of our work have been summarised below.

- Concerns over the management of system user accounts persist. During periods of significant organisational change it is essential that IT access is tightly controlled to avoid data breaches and possible inappropriate activity occurring.
- Management of IT assets requires improvement to ensure data is protected and value for money is achieved.
- Our work in respect of management and security of the IT infrastructure (network, directory service, data centres) continues to provide a reasonable assurance.
- The success of a number of projects has been impacted by poor project governance and management; it is important that lessons learnt are shared across the Council and robust processes established to ensure expected benefits are realised.
- Whilst progress is being made against the ICT Strategy, the individual themes are maturing at differing speeds. A number of themes have not matured as originally envisaged e.g. Insight and Innovation. There is a need to complete an annual review of outcomes to continue to drive the strategy forward on a successful basis.
- Performance in responding to Freedom of Information and Subject Access Requests continues to be low.
- There is a need to ensure that all data sharing activities are covered by appropriate Data Sharing Agreements and Data Processing agreements. This continues to be a theme of activity within the Council Information Assurance Plan.
- There continues to be a need to reinforce and ensure compliance with the ICT Acceptable Use policy.

Through our work we have continued to support the Information Assurance Board in their role of ensuring that information risks are identified and responded to and through the development of an action plan to assist the Council in its GDPR compliance.

**Final Reports Issued During 2018/19**
**Audit Reviews (124 Reports, including 6 non-assurance reports):**

Key to Council priorities and nature of assurance provided.

Outcomes

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

Assurance Type

6. Good Governance.
7. Corporate Risk Register.
8. Financial Assurance.
9. Business Control Assurance.

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Appointee and Court Deputy Service	High	Level 4				✓					✓	✓
General Data Protection Regulation (GDPR) – Procurement and Contract Management	High	Level 4		✓			✓		✓	✓		
Supplier Financial Risk - Embedding Risk Methodology	High	Level 4		✓			✓	✓	✓		✓	
Early Years Health and Wellbeing Contract	High	Level 4			✓		✓		✓	✓	✓	
Children's Trust Client – Complaints Management	High	Level 4			✓		✓					✓
IT Emerging Issues - Fake E Mail Invoice Scam	High	Level 3		✓					✓	✓		
Adult Education IT Systems replacement	High	Level 3				✓	✓					✓
Children's Trust Client – Service Delivery and Financial Performance Framework High Level Review	High	Level 3			✓		✓		✓		✓	✓
Improving Financial Management in Schools	High	Level 3			✓					✓		
Combined Heat and Power Scheme - Contract Management	Medium	Level 4		✓					✓		✓	
Enablement Service	Medium	Level 4				✓	✓					
Funeral & Property Protection Section - Service Delivery Review	Medium	Level 4			✓		✓		✓		✓	✓
Non HRA Property Transactions	Medium	Level 3		✓			✓				✓	✓
Independent Living Service	Medium	Level 3			✓		✓					✓

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Children With Disabilities / Direct Payment Summary Report	Medium	Level 3			✓							✓
Financial Control Review	Medium	Level 3					✓				✓	
IT Emerging Issues IT Governance Housing Repairs	Medium	Level 3					✓					✓
Housing Allocations	Medium	Level 3					✓					✓
IT Emerging Issues - Use of Shared Drives	Medium	Level 3		✓	✓	✓	✓		✓			✓
Public Services Network	Medium	Level 3			✓	✓			✓			✓
Information Governance - Access to Information	Medium	Level 3		✓	✓	✓			✓			
Schools Themed Work – Human Resource Management	Medium	Level 3			✓							✓
Centenary Square - Open Book Accounting	Medium	Level 3		✓					✓		✓	
Direct Payments	Medium	Level 3				✓					✓	
Public Health - Compliance with Governance Requirements	Medium	Level 3			✓	✓	✓				✓	✓
Review of Savings Plan	Medium	Level 3		✓			✓			✓	✓	
Company Assets and Relationship Management	Medium	Level 3		✓					✓		✓	
Information Governance - Data Quality - Place	Medium	Level 3					✓		✓		✓	
Special Education Provision and Travel Needs Review	Medium	Level 3			✓						✓	✓
External Payroll Reconciliation Process	Medium	Level 3		✓			✓				✓	
Private Sector Leasing - Contract Management	Medium	Level 3				✓						✓
Air Quality	Medium	Level 3		✓			✓					✓
Insurance Arrangements	Medium	Level 3		✓			✓		✓		✓	
Enhanced Assessment Beds	Medium	Level 3			✓	✓						✓
Delayed Transfer of Care - Discharge Hubs	Medium	Level 3				✓	✓				✓	✓
Seven Day Working	Medium	Level 3				✓					✓	✓
Third Party Governance - Information Security	Medium	Level 3		✓					✓			
Council Tax - Debt Monitoring and Recovery	Medium	Level 3		✓							✓	
NDR - Debt Monitoring and Recovery	Medium	Level 3		✓							✓	
Ethics	Medium	Level 3		✓			✓		✓			
Direct Payments - Annual Reviews	Medium	Level 3										
Interim Executive Board	Medium	Level 3			✓	✓					✓	
Strategic Management of Non HRA Property Assets	Medium	Level 3		✓								
Transition to Adulthood	Medium	Level 3										✓
PARIS Income Receipting IT Review	Medium	Level 3		✓			✓		✓		✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Public Health Checks	Medium	Level 2			✓	✓	✓					✓
NDR Recovery and Enforcement Levels	Medium	Level 2		✓							✓	
Council Tax Recovery and Enforcement levels	Medium	Level 2		✓							✓	
Deprivation of liberty safeguards	Medium	Level 2				✓	✓					✓
Direct Payment - Hospital Discharges	Medium	Level 2				✓					✓	
Delivery of the Improvement and Business Plan	Medium	Level 2		✓	✓	✓	✓	✓	✓	✓	✓	✓
IT Infrastructure DMZ	Medium	Level 2		✓					✓			
Information Governance - Birmingham Wellbeing	Medium	Level 2				✓	✓		✓			
Parks - Use of On Site Residential Properties	Low	Level 4					✓					
Children's Residential Homes - Contract Management	Low	Level 3			✓						✓	✓
Enterprise Zones	Low	Level 3		✓					✓		✓	
Preparation for IFR 16	Low	Level 3		✓							✓	
Treasury Management	Low	Level 3		✓							✓	
Careline	Low	Level 3				✓	✓		✓		✓	✓
DCFM Outline Evaluation	Low	Level 3					✓		✓			✓
The Active Wellbeing Society - Monitoring Arrangements	Low	Level 3					✓					✓
Children's Advice and Support Service	Low	Level 2			✓							✓
Children in Care External Placements	Low	Level 2			✓		✓				✓	✓
Revenues Refunds	Low	Level 2		✓							✓	
Council Tax - Exemptions and Discounts	Low	Level 2		✓			✓				✓	
Northgate Housing	Low	Level 2					✓		✓			
CareFirst IT	Low	Level 2			✓	✓	✓		✓			
Government Grant Claims	Low	Level 2		✓							✓	
IT Projects - PIR - Revenues and Benefits replacement scanning system	Low	Level 2		✓					✓			
Bus Lane Enforcement	Low	Level 2					✓					✓
Information Governance - Public Health Service Restricted Network	Low	Level 2			✓	✓			✓			
Work Initiation Process ICT Projects	Low	Level 2		✓					✓			✓
Wireless Network	Low	Level 2		✓					✓			✓
RBIS	Low	Level 2		✓					✓			
Attendance Management	Low	Level 2		✓			✓					✓
Corporate Payroll - Allowances	Low	Level 2		✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
Non Invoiced Income Birmingham Community Libraries	Low	Level 2		✓			✓				✓	
Corporate Payroll - Exceptions	Low	Level 2		✓							✓	
Council Tax - Student Discounts	Low	Level 2		✓							✓	
Corporate Payroll - Employee Loans	Low	Level 2		✓							✓	
Information Governance - Data Review - Place	Low	Level 2		✓			✓		✓			
IT Remote Access	Low	Level 2		✓					✓			
Non Invoiced Income Birmingham Parks	Low	Level 2		✓			✓				✓	
Information Governance Data Review	Low	Level 2		✓					✓			
Sufficiency of Child Care Places - Early Education (0-5)	Low	Level 2			✓		✓					✓
Fuel Cards	Low	Level 2		✓							✓	
Information governance Data Sharing - Environmental Health	Low	Level 2		✓			✓		✓			
Employee Related Debts	Low	Level 2		✓							✓	
Information Governance Tenant Management Organisations	Low	Level 2					✓		✓			
BRUM Account	Low	Level 2					✓		✓		✓	✓
Firewalls	Low	Level 2		✓					✓			
Appointee & Court Deputy Service (ACDS) - Cash Processes and Procedures	Low	Level 2				✓	✓				✓	
Accounts Receivable (AR) - Aged Debts – Markets	Low	Level 2		✓			✓				✓	
Accounts Receivable (AR) - Aged Debts – Adults Social Care & Health (ASC & H) – Client Financial Services (CFS)	Low	Level 2				✓					✓	
Local Government Transparency Code	Low	Level 2		✓			✓		✓			
CareFirst IT Review	Low	Level 2			✓	✓	✓		✓			✓
Rent Collection & Charges - Arrears Recovery	Low	Level 2		✓			✓				✓	
RBIS IT Review	Low	Level 2		✓					✓			
Rent Collection & Charges - Former Tenancy Arrears	Low	Level 2		✓			✓				✓	
Schools Financial Value Standard	Low	Level 2			✓				✓		✓	
CareFirst Overview of Implementation of New System	Low	Level 1			✓	✓	✓		✓			✓
Account Receivable - Output Tax	Low	Level 1		✓							✓	
Council Tax Discretionary Hardship Payments	Low	Level 1		✓			✓				✓	
IT Project Governance	Low	Level 1		✓					✓			
Instalment Recovery Drop Off Report	Low	Level 1		✓							✓	
NNDR Enforcement Agents Management and Monitoring Arrangements	Low	Level 1		✓							✓	

Title	Council Risk Rating	Assurance	RAG	1	2	3	4	5	6	7	8	9
NDR Local Discretionary and Public House Reliefs	Low	Level 1		✓			✓				✓	
Accounts Payable The Substitution Process	Low	Level 1		✓							✓	
Accounts Payable Vendor Control	Low	Level 1		✓							✓	
Exceptions to Sales Billing	Low	Level 1		✓							✓	
Billing Activities - Viscount House	Low	Level 1		✓			✓				✓	✓
Benefit Service - Transitional Arrangements	Low	Level 1		✓			✓				✓	
Benefit Service - Diary Events	Low	Level 1		✓							✓	
NDR - Diary Events Notepad	Low	Level 1		✓							✓	
Council Tax - Diary Events Notepad	Low	Level 1		✓							✓	
Vendor Payments - Homeless Service	Low	Level 1		✓			✓				✓	✓
Single Persons Discount Call Credit Contract	Low	Level 1		✓			✓				✓	
Aged Debts - BPS	Low	Level 1		✓							✓	
Markets Lease	N/A	N/A		✓							✓	
Project Management - Roles and Resources	N/A	N/A		✓					✓			✓
Supplier Financial Risk	N/A	N/A		✓							✓	
Serious and Organised Crime - Procurement	N/A	N/A		✓			✓		✓			✓
Commercialism and Trading Approach to Services for Schools	N/A	N/A		✓	✓						✓	
Centenary Square - Project Governance	N/A	N/A		✓			✓		✓			

**Follow Up Reports (40 Reports):**

Title	Risk Rating Council	RAG
Disabled Facilities Grant - VAT Coding 2nd Follow Up	Medium	
Child Permanence Reports follow up	Medium	
Museums Management Arrangements	Medium	
Contract Management - Provision of Transport Services	Medium	
GDPR	Medium	

<b>Title</b>	<b>Risk Rating Council</b>	<b>RAG</b>
Information Governance - Data Sharing Follow Up	Medium	
Network Management Follow Up	Medium	
Third Party Service Provision - Information Security Follow Up	Medium	
Residential Care Centres Follow up	Medium	
Accounts Payable Fees at Independent Schools Follow up	Medium	
SAP Interface files and reconciliation Follow-up	Medium	
IT Governance Housing Repairs Follow-up	Medium	
Due Diligence Follow-up	Medium	
Council Tax Recovery and Enforcement Levels Follow-up	Medium	
Assessment & Support Planning - Section 117	Medium	
IT Emerging Issues Use of Shared Drives	Medium	
Independent Living Service Follow Up	Medium	
IT Emerging Issues - Access to Information Follow Up	Medium	
SAP Security	Low	
Purchased Annual Leave Scheme Follow up	Low	
Information Assurance Framework Follow Up	Low	
Council Tax Suppressions Follow Up	Low	
IT Asset and Configuration Management	Low	
Egress - Secure Email	Low	
RBIS Batch Processing Follow up	Low	
Education Infrastructure - Project Management	Low	
Safeguarding Corporate Overview - Section 11 Follow up	Low	
Information Governance - SEGWEB Follow up	Low	
Rent Refunds Follow up	Low	
Web Services Follow up	Low	
NDR Recovery and Enforcement levels Follow-up	Low	
Public Service Network (PSN) Follow Up	Low	
Wireless Network Follow Up	Low	
Residential Placements	Low	
Disabled Facilities Grant - VAT Coding 3rd Follow Up	Low	
Network Management Follow Up	Low	
Third Party Service Provision	Low	



Title	Risk Rating Council	RAG
Accounts Payable - Fuel Cards Follow up	Low	
Combined Heating and Power Scheme - Contract Management - Follow-up	Low	
Information Governance - Data Sharing	Low	

**Investigation Reports (24 Reports)**
**School Visits (50 Reports, 11 Follow-up Reports)**

## **Internal Audit Charter 2019/20**

### **1. Introduction**

#### **1.1 This charter sets out Birmingham Audit's:**

- purpose, authority and responsibilities;
- establishes Birmingham Audit's position within the organisation, including reporting relationships with the 'board';
- covers the arrangements for appropriate resourcing;
- defines the scope of internal audit activities and role of Internal Audit in any fraud-related work; and
- includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

It also sets out the objectives, framework and services delivered by Birmingham Audit (which are in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS)). The detailed actions to deliver the charter are contained within the Birmingham Audit Business Plan.

#### **Notes:**

1. *The term the 'board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive, Chief Financial Officer, or Monitoring Officer*
2. *Statutory officer roles with regards to Internal Audit:*

*Chief Executive and Assistant Chief Executive - ensure there is an open, honest, transparent and accountable culture in operation within the Council and are available as and when required by Internal Audit.*

*Chief Financial Officer - is responsible for ensuring the sound financial administration of the Council and effective systems of Internal Audit. They are also responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police.*

*Monitoring Officer - has a specific duty to ensure that the Council, its officers, and its Elected Councillors, maintain the highest standards of conduct in all they do*

### **2. Purpose, Authority & Responsibilities**

- 2.1 Birmingham Audit's primary purpose is to provide independent and objective assurance to the Council on the control environment (risk management, internal control and governance) by evaluating its effectiveness in achieving the organisations objectives.

2.2 In accordance with section 12 of the Financial Regulations:

- each Director must ensure there is an open, honest, transparent and accountable culture in operation within their area of responsibility and must make its services available as and when required for audit both internally and externally;
- Directors must respond in writing to any recommendations contained in audit reports in accordance with agreed protocols; and
- the Assistant Director Audit and Risk Management on the authority of the Chief Financial Officer, shall have authority to:
  - enter any Council premises or land at all reasonable times;
  - have access to all records, documents, data and correspondence relating to all transactions of the City Council, or unofficial funds operated by an employee as part of their duties;
  - require any employee of the City Council to provide such explanations, information or any other assistance necessary concerning any matter under audit examination; and
  - require any employee of the Council to produce cash, stores or any other property under his / her control, belonging to the Council or held as part of the employee's duties.

The rights above apply equally to organisations which have links with or provide services on behalf of the Council (e.g. wholly owned companies, third parties or other agents acting on behalf of the Council) where the Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

2.3 Birmingham Audit's responsibilities include looking at how risk management, control, governance processes, and other resources are managed, and working with managers to add value, and improve the security, efficiency and effectiveness of their processes.

2.4 Individual auditors are responsible for ensuring that they operate with due professional care. This means that Birmingham Audit staff will:

- be fair and not allow prejudice or bias to override objectivity;
- declare any interests that could potentially lead to conflict;
- sign a confidentiality statement;
- not accept any gifts, inducements, or other benefits from employees, clients, suppliers or other third parties;
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions;

- be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, lack of economy, ineffectiveness, failure to comply with management policy, and conflicts of interest;
- have sufficient knowledge to identify indicators that fraud may have been committed;
- disclose all material facts known to them which if not disclosed could distort their reports or conceal unlawful practice subject to confidentiality requirements; and
- disclose in reports any non-compliance with these standards; and not use information that they obtain in the course of their duties for personal benefit or gain.

### **3. Position within the Organisation (including reporting relationship with the board)**

- 3.1 Birmingham Audit will remain independent of the areas audited to ensure that auditors perform their duties impartially, providing effective professional judgements and recommendations. Where appropriate audit staff will be rotated to avoid and conflict of interests. Birmingham Audit will not have any operational responsibilities.
- 3.2 Subject to any statutory responsibilities and overriding instructions of the Council, accountability for the response to advice, guidance and recommendations made by Birmingham Audit lies with management. Management can either accept or implement the advice and recommendations or reject it. Any advice, guidance or recommendations made by Birmingham Audit will not prejudice the right to review the relevant policies, procedures, controls and operations at a later date.
- 3.3 The Assistant Director Audit and Risk Management will report the results of audit work in accordance with the Birmingham Audit Protocol.

### **4. Resourcing**

- 4.1 The service will be delivered to professional standards by appropriately qualified and skilled staff. Birmingham Audit has achieved the ISO27001:2013 Information Security Standard. The Information Security Standard is subject to regular external review.
- 4.2 During 2019/20 we will continue to seek more efficient and effective ways to deliver the audit service, provide assurance to Members, and help identify new ways of working that will bring about service improvements and deliver efficiencies. The Audit data warehouse and data analysis will be used to support our assurance work and provide intelligence in respect of allegations of non-benefit related fraud referrals or data anomalies identified, and to carry out exception reporting, to identify samples and review data quality.

- 4.3 We will work with private sector partners as necessary to ensure we have the right skills and resources to deliver a quality driven professional service to the Council.
- 4.4 We will work in partnership with other inspection bodies to ensure that we get the maximum audit coverage from the resources invested; taking assurance from each other's work where appropriate.
- 4.5 If the Assistant Director Audit and Risk Management, or those charged with governance, consider that the adequacy and sufficiency of internal audit resources or the terms of reference in any way limit the scope of Birmingham Audit, or prejudice the ability of Birmingham Audit to deliver a service consistent with the definition of Internal Audit, they will advise the Council accordingly.

## **5. Scope**

- 5.1 The scope of the internal audit function will embrace the internal control system of the Council. It covers all financial and non-financial related activities of the Council at all levels of its structure.
- 5.2 The internal control system is defined as including the whole network of systems and controls established by management to ensure that the objectives are met. It includes both financial and other controls for ensuring that corporate governance arrangements are satisfactory and best value is achieved. In determining where effort should be concentrated, the Assistant Director Audit and Risk Management will take account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving its objectives.
- 6.3 Birmingham Audit will consider the results of the Council's risk management processes. Where the results indicate adequate action has already been undertaken to manage the risks / opportunities Birmingham Audit will take this into account. Where the results indicate that insufficient work has been done then Birmingham Audit may undertake a separate review.
- 5.4 The scope of audit work extends to services provided through partnership arrangements. The Assistant Director Audit and Risk Management will decide, in consultation with all parties, whether Birmingham Audit conducts the work to derive the required assurance or rely on the assurances provided by other auditors. Where necessary, the Assistant Director Audit and Risk Management will agree appropriate access rights to obtain the necessary assurances.

- 5.5 Birmingham Audit will not undertake tasks, which are likely to compromise its independence, internal control functions or certification processes.
- 5.6 Birmingham Audit will participate and contribute to Council and Directorate policy development as required through attendance at Managers Network events, and working groups.

5.7 Other Work

Where appropriate resources exist, Birmingham Audit will make provision within the plan for the review of key systems or key services provided by:

- the Council on behalf of other organisations; and
- others on behalf of the Council. In order to achieve this Birmingham Audit will require access to partner records, systems and staff. This access should form part of any partnership contract between the Council and the partner.

The decision to include it in the plan will be dependent on the level of risk identified and whether reliance can be placed on opinions provided by others.

5.8 Fraud & Corruption

Section 14 of the Financial Regulations states the following:

- the responsibility for prevention and detection of fraud rests with all employees;
- each Director must ensure that the Chief Finance Officer, Assistant Director Audit and Risk Management and if applicable, the Monitoring Officer, is notified immediately whenever a matter arises which involves, or is thought to involve, any financial irregularities, fraud and corruption;
- the Chief Finance Officer is responsible for deciding on the action to be taken to investigate suspected financial irregularities, including referring the matter to the Police;
- if there are any suspicions that a Member may be involved / or associated either directly or indirectly in an incident that may require investigation, then the Director must report this to the Chief Finance Officer, who may refer the matter to the appropriate Cabinet Member or Committee; and
- each Director must implement the Anti-Fraud Strategy, the Criminal Acts Procedure and the Confidential Reporting (Whistleblowing) Code and Public Interest Disclosure Act 1998.

Birmingham Audit will assist managers to minimise the scope for fraud by evaluating the Council's systems of internal financial control and reporting thereon. Where irregularities are suspected, Birmingham Audit will, in appropriate cases, undertake an investigation and report to management or will promptly provide advice and guidance to assist managers with their investigation. All investigations undertaken by Birmingham Audit will adhere to all Council policies.

Where Directorates require Birmingham Audit to attend disciplinary hearings as a management witness, sufficient notice, ie: 10 working days, should be given.

## **6. Avoiding Conflicts of Interest**

Internal audit staff will maintain an impartial, unbiased attitude to their work and will avoid conflicts of interest.

Birmingham Audit will maintain a register of interests for Audit staff. Any interests declared will be taken into account when planning and delivering work.

Where appropriate audit staff will be rotated to avoid any conflict of interests.

## **7. The Audit Committee**

7.1 Our support to the Audit Committee helps to demonstrate the highest standards of corporate governance, public accountability and transparency in the Council's business. We will maintain an effective working relationship with the Audit Committee, this will include:

- their approval of the internal audit charter and audit plan, and monitoring of progress against them;
- the provision of training and technical support to keep Members informed of relevant legislation, good practice and governance issues;
- access to all reports. Those considered to be of the highest risk will be highlighted and brought to their attention; and
- performance management information will be provided.

7.2 We will attend the committee meetings, and contribute to the agenda.

7.3 We will participate in the committee's review of its own remit and effectiveness, and ensure that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives.

7.4 Our progress reports will include the outcomes of internal audit work in

sufficient detail to allow the committee to understand what assurance it can take from that work, and / or what unresolved risks or issues it needs to address.

- 7.5 Annual / half year update reports will be produced. The annual report will include an overall opinion on the control environment, the extent to which the audit plan has been achieved, and a summary of any unresolved issues.

## **8. Business Plan Objectives - 2019/20**

- To deliver an internal audit service that meets professional and mandatory standards, adds value and delivers suitable assurance to the Council.
- To deliver an effective counter fraud service to prevent, detect and deter fraud and error and to assist law enforcement agencies through the provision of intelligence.
- To deliver a creditor statement reconciliation audit, maximising overpayment recoveries.

## **9. Statutory Requirements**

- 9.1 There is a statutory requirement for Local Authorities to have a counter fraud and internal audit function. This service is provided for the Council in-house by Birmingham Audit working in partnership with a number of external bodies. The Assistant Director Audit and Risk Management provides a continuous internal audit and counter fraud service and reviews the Council's controls and operations.
- 9.2 The services we provide are in accordance with the following legal and professional requirements:

Legal:

- Accounts and Audit Regulations 2015
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013
- Criminal Justice Act 2003
- Criminal Procedures Investigation Act 1996
- Data Protection Act 2018
- Fraud Act 2006
- Freedom of Information Act 2000
- Human Rights Act 1998
- Local Government Act 2002
- Police & Criminal Evidence Act 1984
- Proceeds of Crime Act 2008
- Regulation of Investigatory Powers Act 2012



- Social Housing Fraud (Power to Require Information) Regulations 2014
- The Protection of Freedoms Act 2012
- Theft Act 1978
- Welfare Reform Act 2012

Professional Requirements:

- Relevant CCAB professional guidance including the Public Sector Internal Audit Standards
- Relevant IIA guidance
- Information Security - BS EN ISO27001:2013

- 9.3 Birmingham Audit reports to the Section 151 Officer under the Local Government Act 2002. The legislative drivers for internal audit and counter fraud continue to evolve.
- 9.4 The Council has adopted the CIPFA / SOLACE code of corporate governance. This code together with the Statement of Recommended Practice (SORP) introduced the requirement for an annual statement of assurance to be made. The Council has subsequently reviewed / revised their Local Code of Governance in accordance with the CIPFA Framework - Delivering Good Governance in Local Government. This means that the Chief Executive and Leader are required to sign a formal corporate assurance statement (known as the Annual Governance Statement (AGS)) on the effectiveness of the Council's governance arrangements and identify any significant governance issues.
- 9.5 We have a role to play in advising Directors regarding the processes, and reporting mechanisms needed to compile their own assurance statements, which the AGS will be based on. An integrated assurance framework has been introduced which places greater reliance on 'management assurance'. This is obtained from individual officers around specific areas of risk and the assurance documentation completed annually at both directorate and business unit level.
- 9.6 The audit plan is risk based and delivered to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place. Our opinion will be prepared using the following sources of assurance: Internal / External Audit work, the AGS process and Risk Management processes. We will work with the External Auditors to improve overall coverage and avoid duplication of effort.
- 9.7 We give an opinion on the internal control environment which forms part of the AGS, which the Council is legally required to produce as part of the final accounts. The work undertaken by Birmingham Audit makes an important

contribution to providing assurance around the control environment, and the content of the AGS. The categories of work include:

- Section 151 work around the major and significant financial systems;
- IT Governance;
- audit around the major risks and the risk management process;
- audit of corporate governance / business control assurance arrangements;
- counter fraud activities; and
- school activities.

#### **10. The Annual Audit Plan**

- We will continue to contribute to driving forward the change agenda ensuring our planning process is future focused.
- The audit plan for 2019/20 has been compiled based on a number of factors, ie:
  - the level of risk associated to each entity;
  - the level of assurance associated to each entity; and
  - any reviews that fall under the 'must do' categorisation, ie: those which are required to be undertaken as part of the minimum internal audit standard.

On an annual basis each entity will be reassessed based on the results of the previous year's internal audit work and other assurance gained regarding the control environment.

There is also an allocation for undertaking programmed school visits as part of the school improvement agenda.

- All of the risks contained within the Corporate Risk Register are included within the Council's Assurance Map, which is updated prior to producing the audit plan, and some or all of these will be audited on the basis of their likelihood and impact. The focus of the audits will be the testing of the systems, controls and action plans put in place by the nominated risk owner to mitigate the risk. If other significant risks / opportunities are identified either through audit work, new / changing legislation or other change mechanisms they may, subject to resource availability, be added to the audit plan.
- Following discussions with the External Auditors we agreed that each of the systems they designate as 'main financial systems' would feature in the audit plan, unless otherwise directed.

- We will assess ourselves against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Prevention and detection of fraud remains a priority for the Council.
- We will continue to develop our approach to systems audit work to put more emphasis on reducing the risk of fraud. Counter fraud activity will include both reactive and proactive fraud work and providing further assistance to officers to better manage the risk of fraud through prevention, detection and deterrence. This will include work in relation to the National Fraud Initiative (NFI).
- Follow up audits will be undertaken in accordance with the agreed policy.
- Consultancy work will be undertaken within the limitations of existing resources and where it does not introduce a conflict of interest.

Consultancy work is defined as:

*"The provision to businesses of objective advice and assistance relating to the strategy, structure, management and operations of an organisation in pursuit of its long-term purposes and objectives."*

Consulting services may include but are not limited to:

- School financial health checks;
- facilitation of workshops;
- assistance in the completion of financial returns; and
- representation on Boards etc.

The purpose, scope and approach for each piece of consultancy work will be agreed prior to commencement of the work.

- A Charging Policy has been implemented. This means that some elements of work will only be undertaken if resource is available and the client is willing to pay e.g. grant claim certification.

**Proposed Internal Audit Plan 2019/20**

	Days	Total
<b>Financial Systems (including computer audits where appropriate)</b>		
Accounts Payable	50	
Accounts Receivable	50	
Asset Management	50	
Audit Letter	5	
Benefits	50	
Carefirst / Eclipse	30	
Cash Income / Cashiers	30	
Direct Payments	30	
Housing Rents	25	
Income / Expenditure - Schools	20	
IT Related Financial Systems Work	85	
Main Accounting	50	
Payroll/HR	50	
Procurement, Contract Audit and PFI	140	
Revenue (Council Tax and NNDR)	60	<b>725</b>
<b>Business Controls Assurance</b>		
Work in Progress b/fwd. from 2018/19	50	
IT Related Non-Financial Systems Work	375	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work - Birmingham Children's Trust	145	
Chargeable Work – Grant Certification	80	<b>940</b>
<u>Adults Social Care</u>		
Assessment & Support Planning	25	
Commissioning	20	
Placements	20	
Enablement	15	
Specialist Care Services	25	<b>105</b>
<u>Assistant Chief Executives</u>		
Public Health	30	
Resilience	20	
Improvement Agenda	20	
Project Management	30	<b>100</b>
<u>Education and Skills</u>		
Contract Monitoring - Birmingham Children's Trust	40	
Safeguarding & Development – BCSB	30	
Safeguarding Corporate Overview	30	
Commissioning & Contract Management Framework	20	
Pupil Premium	10	

	Days	Total
Not in Education Employment or Training (NEETS)	10	
SEND - Working with Health & Tri-partite Funding	20	
Management of Properties	25	
Children without a School Place	15	
Exclusions process	5	
Youth Provision Outcomes	15	220
<u>Finance and Governance</u>		
Local Enterprise Partnership	15	
Governance	20	
Ethics	10	
Commercial Activities	30	
Risk Management	10	
Self-Assessment - AGS Process	10	95
<u>Inclusive Growth</u>		
Accountable Body	30	
Flood Management	10	40
<u>Neighbourhoods</u>		
Leaseholder Service Charges	10	
House Sales	15	
Homelessness	20	
Waste Management	25	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	200	270
		<b>1770</b>
<b>Investigations</b>		
Reactive investigations	630	
Proactive work / Fraud Awareness	200	<b>830</b>
<b>Schools - Non Visits</b>		
School Improvement (BEP) - Contract Management/Delivery	5	
Pupil Placements: Alternative Provision	10	
Virtual School	10	
Admissions and Appeals	5	
Themed Work	30	<b>60</b>
<b>Schools - Visits</b>	720	<b>720</b>
<b>Follow Up Work</b>		<b>175</b>
<b>Ad Hoc Work / Contingency</b>		<b>286</b>
<b>Planning and Reporting</b>		<b>120</b>
<b>City Initiatives</b>		<b>5</b>
<b>TOTAL</b>		<b>4691</b>



## BIRMINGHAM CITY COUNCIL

## PUBLIC REPORT

<b>Report to:</b>	<b>AUDIT COMMITTEE</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Date of Decision:</b>	<b>18 June 2019</b>
<b>Subject:</b>	<b>STATEMENT OF ACCOUNTS 2018/19</b>
<b>Wards affected: All</b>	
<b>1</b>	<b>Purpose</b>
1.1	This report presents the Council's draft Statement of Accounts for 2018/19 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.
<b>2</b>	<b>Decisions recommended:</b>
2.1	To receive the draft Statement of Accounts for 2018/19.
2.2	To note the arrangements for the audit of the accounts and for public inspection.

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**E-mail address:** [clive.heaphy@birmingham.gov.uk](mailto:clive.heaphy@birmingham.gov.uk)

**Contact Officer:** Martin Stevens  
**Telephone No:** 0121 303 4667  
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### **3 Compliance Issues:**

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:  
The production of the annual accounts is a statutory requirement for the Council.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:  
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):  
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, 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 previously been considered elsewhere on this agenda of this meeting. 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 2018/19 accounts were signed on 31 May 2018 in line with the statutory deadline.
- 4.2 Appendix 1 to this report is the published draft Statement of Accounts for 2018/19. 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 2018/19 were opened for public inspection on 3 June 2019 for a period of 30 working days, ending on 12 July 2019. 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 July 2018. A further report will be presented to this committee at its meeting on 30 July 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.

4.6 The audited accounts statutorily have to be published by 31 July 2018.

**Signature:**

Chief Finance Officer: .....

Dated: .....





Draft Statement of Accounts 2018/19  
Subject to Audit

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## NARRATIVE REPORT

### KEY FACTS ABOUT BIRMINGHAM

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

However, Birmingham faces a number of key challenges with:

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

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

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

### KEY FACTS ABOUT THE COUNCIL

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

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

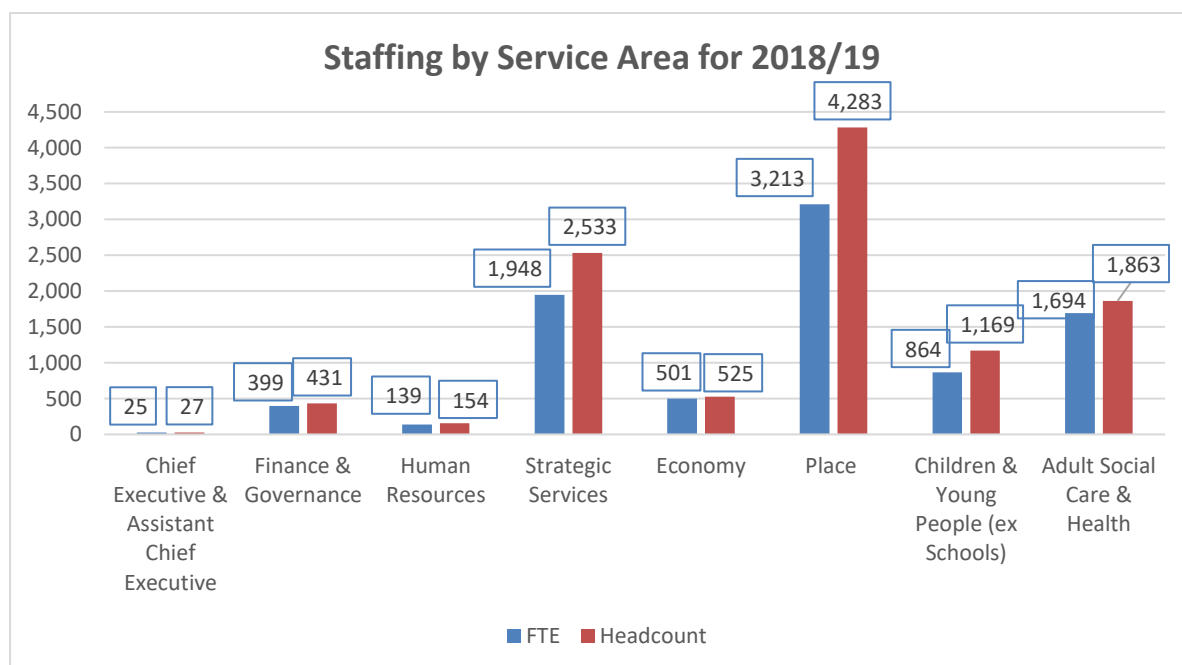
The Council has a clear vision for Birmingham, which is to create a city of growth where every child, citizen and place matters. The Council has agreed strategic outcomes and priorities which are:

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

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

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

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



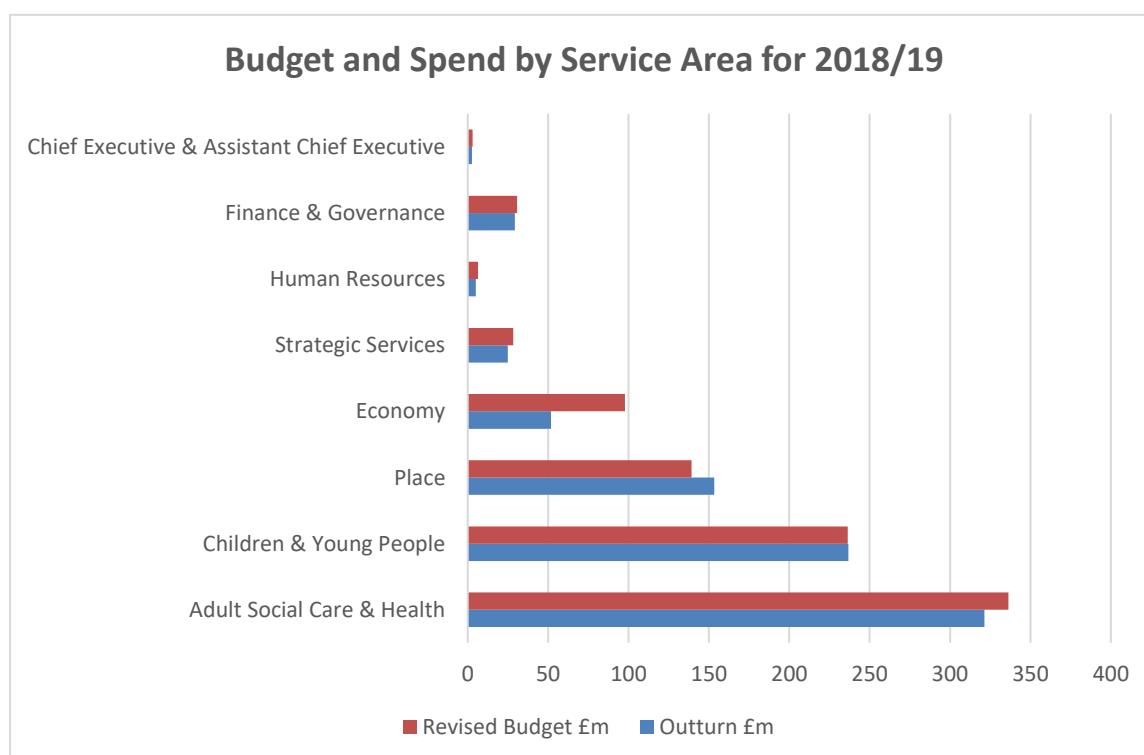


## A SUMMARY OF THE COUNCIL'S FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2019

### Revenue Expenditure

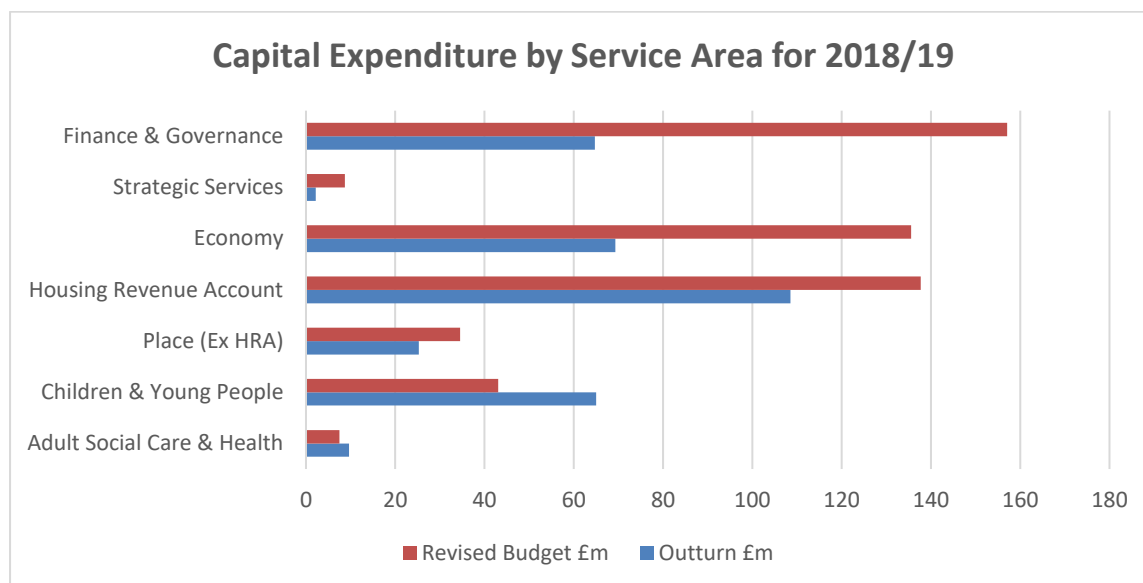
The Council's revenue and capital budgets were allocated between eight Directorates with other budgets being managed corporately. Spending against these budgets was carefully monitored throughout the year and reported to Cabinet regularly. The year-end outturn position was reported to Cabinet on 14 May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

The Directorate's final revenue outturn was a net underspend of £53.3m and with a Corporate underspend of £12.7m gave a total net underspend of £66.0m. This underspend reduced to £6.3m after a net transfer to reserves of £59.7m. The major proportion of the transfer to reserves relates to contract payments withheld in respect of a contract dispute, which will need to be released in future years to undertake work which has not been carried out. The chart below shows the budget and spend by Directorate for 2018/19.



### Capital Expenditure

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

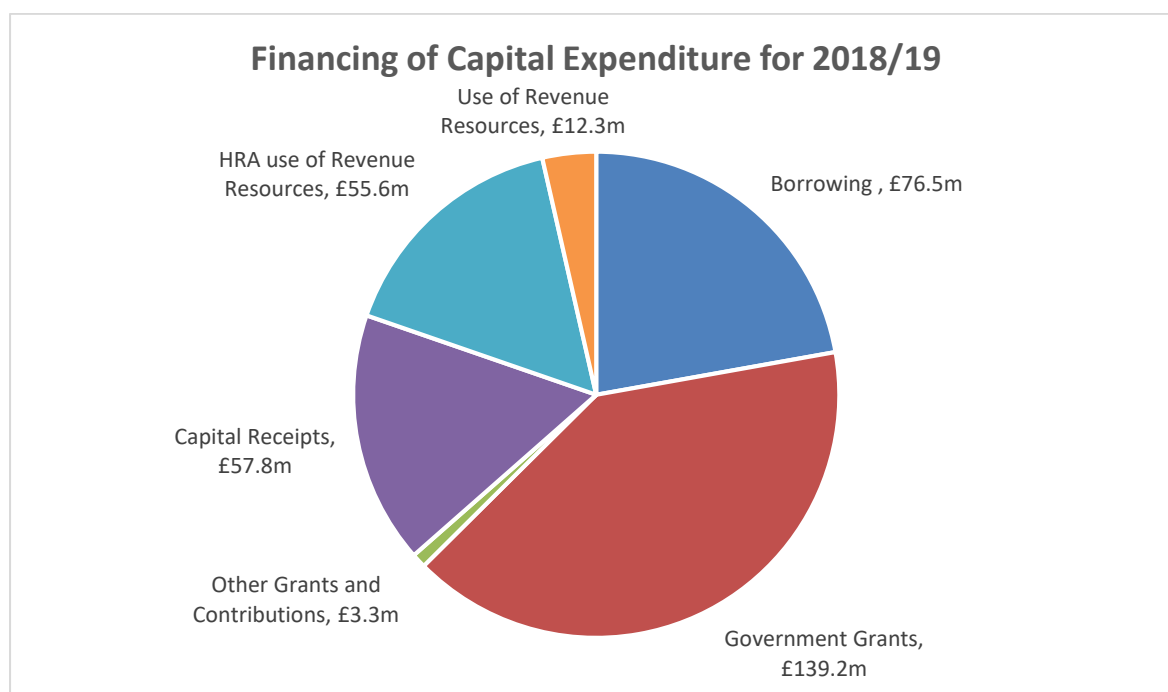


### Material Assets Acquired

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

### Capital Financing

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



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

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

### Service Concession Arrangements and Similar Contracts

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

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

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

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

The principal dispute began in 2014 and has been through:

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

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

- Note 2, Critical Judgements in Applying Accounting Policies
- Note 4, Assumptions about the Future and Other Major Sources of Estimation Uncertainty
- Note 18, Usable Reserves
- Note 22, Property, Plant and Equipment
- Note 33, Contingent Liabilities and Contingent Assets, and
- Note 43, Service Concession Arrangements

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

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

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

### Pension Liabilities

For the Local Government Pension Scheme there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,503.4m at 31 March 2019 (31 March 2018: £2,587.9m). Whilst the figure is substantial it should be noted that:

- It is not an immediate deficit that has to be met now. The sum is the current assessment taking a long term view of the future liabilities for existing pensioners and current employees who are accruing pension entitlement and of future expected investment performance;
- There is an 18 year recovery plan which has been built into the Council's financial plans;
- It is not unique to the Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 20 and 21 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 up to 28 February 2019. The level of claims received after this date to the date of signing these accounts was not material.

#### Business Rates

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

The Council, as Billing Authority, is required to make a provision for this liability. These financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2019 but which remained unsettled. From 1 April 2017, the Council has been piloting a 100% Local Business Rates Retention

scheme which has meant that its share of any provision outstanding relating to appeals is now 99% with the remaining 1% attributable to the Fire and Rescue Authority.

### NEC Pension Liability

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

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

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

### Guarantees to Third Parties

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

### Reserves

The Council maintains two types of reserves:

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

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

	31 March 2018 £m	31 March 2019 £m
Usable Reserves	969.9	937.4
Unusable Reserves	(1,517.7)	(1,085.4)
<b>Total Reserves</b>	<b>(547.8)</b>	<b>(148.0)</b>

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



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

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

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

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

The Council's net liabilities at 31 March 2019 have reduced by £399.8m to £148.0m being represented by the usable and unusable reserves.

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

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## The Financial Statements

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

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

### The Core Financial Statements

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 an increase in the level of net expenditure of £14.7m, with the impact of the items detailed above outweighing the reductions in the costs of services as a result of savings plans implemented by the Council in 2018/19. The factors highlighted above do not impact on Council Tax or housing rents as they are reversed out through the Movement in Reserves Statement.

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

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

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

The Council's net liabilities at 31 March 2019 have reduced by £399.8m to £148.0m, mainly as a result of:

- an increase of £161.5 in the carrying value of non-current assets and assets held for sale following revaluation
- a reduction in borrowing of £101.2m
- a reduction in creditors of £37.1m
- a reduction in the net pension deficit of £84.4m

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

### Supplementary Statements

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

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

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

### Group Accounts

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

#### Subsidiaries

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

#### Associates

Birmingham Airport Holdings Limited

#### Joint Venture

Paradise Circus General Partner Limited

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



independent board of directors with the Council nominating one board member.

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

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

### **Accountable Body Roles**

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

### **Future Revenue and Capital Expenditure Plans**

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

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

The Council's key capital priorities are addressed through the four-year capital programme, totalling £2,095m in the Financial Plan 2019 - 2023. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £613m of Government grants and other external contributions. The programme also incorporates borrowing proposals set out in the approved Enterprise Zone Investment Plan, the cost of which will be supported from projected Business Rates growth in the Enterprise Zone area.

The Council agreed to forego its Revenue Support Grant from 1 March 2017 in exchange for retaining 99% of Business Rates (the remaining 1% will continue to be passed to the West Midlands Fire and Rescue Authority) as part of a 100% Business Rates Retention Pilot across the seven West Midlands District Authorities. The top up grant that the Council receives has also been reduced in order to ensure fiscal neutrality in terms of the Local Government Finance Settlement. The Government is currently consulting on arrangements for the Business Rates scheme, including the 100% pilot for 2020/21 and beyond.

Full details of the 2019/20 Revenue and Capital Budgets can be found within the Council Financial Plan 2019 - 2023 approved by Council on 26 February 2019, via the Council's website.

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## **Statement of Responsibilities for the Statement of Accounts**

### **The Council's Responsibilities**

The Council is required to:

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

### **The Section 151 Officer's Responsibilities**

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

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

The Section 151 Officer has also:

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

### **Certification of Accounts**

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

.....  
**Clive Heaphy, Chief Finance Officer and Section 151 Officer**  
**31 May 2019**

# CORE FINANCIAL STATEMENTS 2018/19

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Figures for 2017/18 have been restated to reflect the change in Directorate structure. Details of the restatement are set out in Note 8.

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

2017/18				2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m	Note	£m	£m	£m
554.9	(207.4)	347.5		547.2	(213.6)	333.6
1,111.4	(800.8)	310.6		1,250.9	(807.1)	443.8
264.1	(86.6)	177.5		244.4	(83.8)	160.6
149.2	(89.6)	59.6		181.4	(97.2)	84.2
9.8	(1.3)	8.5		18.8	(1.7)	17.1
627.5	(585.9)	41.6		591.3	(550.9)	40.4
5.8	(7.6)	(1.8)		3.8	(14.2)	(10.4)
34.5	(64.5)	(30.0)		3.7	(58.7)	(55.0)
-	-	-	10	(83.5)	-	(83.5)
3.2	-	3.2		2.8	(0.3)	2.5
196.7	(286.7)	(90.0)		194.2	(284.8)	(90.6)
<b>2,957.1</b>	<b>(2,130.4)</b>	<b>826.7</b>		<b>2,955.0</b>	<b>(2,112.3)</b>	<b>842.7</b>

## Movement in Reserves Statement

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

	General Fund Balance	Earmarked General Fund Reserves	Total General Fund Balance	Housing Revenue Account	Earmarked 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	£m	£m	£m
<b>Balance at 31 March 2017</b>	<b>100.8</b>	<b>312.1</b>	<b>412.9</b>	<b>4.7</b>	<b>-</b>	<b>278.3</b>	<b>39.0</b>	<b>95.2</b>	<b>830.1</b>	<b>(1,903.4)</b>	<b>(1,073.3)</b>
<b>Movement in Reserves during 2017/18</b>											
Surplus/(Deficit) on the provision of services	(80.8)		(80.8)	58.8	-				(22.0)		(22.0)
Other Comprehensive Income and Expenditure									-	547.5	547.5
<b>Total Comprehensive Income and Expenditure</b>	<b>(80.8)</b>	<b>-</b>	<b>(80.8)</b>	<b>58.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22.0)</b>	<b>547.5</b>	<b>525.5</b>
Adjustments between accounting basis and funding basis under regulations (Note 17)	177.0	-	177.0	(58.7)	-	42.1	(10.4)	11.8	161.8	(161.8)	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	<b>96.2</b>	<b>-</b>	<b>96.2</b>	<b>0.1</b>	<b>-</b>	<b>42.1</b>	<b>(10.4)</b>	<b>11.8</b>	<b>139.8</b>	<b>385.7</b>	<b>525.5</b>
Transfers to/(from) Earmarked Reserves (Note 18)	(26.6)	26.6	-						-		-
<b>Increase/(Decrease) in 2017/18</b>	<b>69.6</b>	<b>26.6</b>	<b>96.2</b>	<b>0.1</b>	<b>-</b>	<b>42.1</b>	<b>(10.4)</b>	<b>11.8</b>	<b>139.8</b>	<b>385.7</b>	<b>525.5</b>
<b>Balance at 31 March 2018</b>	<b>170.4</b>	<b>338.7</b>	<b>509.1</b>	<b>4.8</b>	<b>-</b>	<b>320.4</b>	<b>28.6</b>	<b>107.0</b>	<b>969.9</b>	<b>(1,517.7)</b>	<b>(547.8)</b>
<b>Movement in Reserves during 2018/19</b>											
Adjustment for the Restatement of Financial Instruments	(0.5)	-	(0.5)	-	-	-	-	-	(0.5)	(0.4)	(0.9)
<b>Restated Balance brought forward at 1 April 2018</b>	<b>169.9</b>	<b>338.7</b>	<b>508.6</b>	<b>4.8</b>	<b>-</b>	<b>320.4</b>	<b>28.6</b>	<b>107.0</b>	<b>969.4</b>	<b>(1,518.1)</b>	<b>(548.7)</b>
Surplus/(Deficit) on the provision of services	(69.9)		(69.9)	50.6					(19.3)		(19.3)
Other Comprehensive Income and Expenditure									-	420.0	420.0
<b>Total Comprehensive Income and Expenditure</b>	<b>(69.9)</b>	<b>-</b>	<b>(69.9)</b>	<b>50.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19.3)</b>	<b>420.0</b>	<b>400.7</b>
Adjustments between accounting basis and funding basis under regulations (Note 17)	121.4		121.4	(50.0)		(80.1)	(3.7)	(0.3)	(12.7)	12.7	-
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	<b>51.5</b>	<b>-</b>	<b>51.5</b>	<b>0.6</b>	<b>-</b>	<b>(80.1)</b>	<b>(3.7)</b>	<b>(0.3)</b>	<b>(32.0)</b>	<b>432.7</b>	<b>400.7</b>
Transfers to/(from) Earmarked Reserves (Note 18)	(77.4)	77.4	-						-		-
<b>Increase/(Decrease) in 2018/19</b>	<b>(25.9)</b>	<b>77.4</b>	<b>51.5</b>	<b>0.6</b>	<b>-</b>	<b>(80.1)</b>	<b>(3.7)</b>	<b>(0.3)</b>	<b>(32.0)</b>	<b>432.7</b>	<b>400.7</b>
<b>Balance at 31 March 2019</b>	<b>144.0</b>	<b>416.1</b>	<b>560.1</b>	<b>5.4</b>	<b>-</b>	<b>240.3</b>	<b>24.9</b>	<b>106.7</b>	<b>937.4</b>	<b>(1,085.4)</b>	<b>(148.0)</b>

## Balance Sheet

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

31 March 2018		Note	31 March 2019
£m			£m
5,719.9	Property, Plant and Equipment	22	5,875.3
251.6	Heritage Assets	23	249.8
11.3	Investment Property		12.7
13.7	Intangible Assets	24	7.4
41.7	Long Term Investments	25	41.2
126.2	Long Term Debtors	26	115.4
<b>6,164.4</b>	<b>Total Long Term Assets</b>		<b>6,301.8</b>
72.6	Short Term Investments	27	66.2
0.9	Assets Held for Sale	28	23.4
1.3	Inventories		1.4
329.4	Short Term Debtors	29	330.6
55.5	Cash and Cash Equivalents	30	49.7
<b>459.7</b>	<b>Total Current Assets</b>		<b>471.3</b>
(35.4)	Cash and Cash Equivalents	30	(15.2)
(799.8)	Short Term Borrowing	34	(583.1)
(333.7)	Short Term Creditors	31	(295.9)
(188.1)	Short Term Provisions	32	(205.4)
<b>(1,357.0)</b>	<b>Total Current Liabilities</b>		<b>(1,099.6)</b>
(1.5)	Long Term Creditors		(2.3)
(23.5)	Long Term Provisions	32	(15.9)
(2,740.0)	Long Term Borrowing	34	(2,855.5)
(462.0)	Other Long Term Liabilities	39	(444.4)
(2,587.9)	Net liability on defined benefit pension scheme	21	(2,503.4)
<b>(5,814.9)</b>	<b>Total Long Term Liabilities</b>		<b>(5,821.5)</b>
<b>(547.8)</b>	<b>Net Assets/(Liabilities)</b>		<b>(148.0)</b>
	<b>Usable Reserves</b>	18	
170.4	Unearmarked Reserves		144.0
130.9	Earmarked Reserves		106.5
172.0	Grant Reserves		275.3
69.2	Ringfenced Reserves		64.5
427.4	Capital Reserves		347.1
<b>969.9</b>	<b>Total Usable Reserves</b>		<b>937.4</b>
(1,517.7)	Unusable Reserves	19	(1,085.4)
<b>(547.8)</b>	<b>Total Reserves</b>		<b>(148.0)</b>

The unaudited accounts were issued on 31 May 2019.

## Cash Flow Statement

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

2017/18 £m		Note	2018/19 £m
(22.0)	Net Surplus/(Deficit) on the provision of services		(19.3)
	Opening Adjustment for IFRS9 implementation		(1.0)
64.5	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements	38	404.2
(224.1)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(209.0)
<b>(181.6)</b>	<b>Net cash flows from Operating Activities</b>		<b>174.9</b>
(166.9)	Investing Activities	36	(134.0)
336.7	Financing Activities	37	(26.5)
<b>(11.8)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14.4</b>
31.9	Cash and cash equivalents at the beginning of the reporting period		20.1
<b>20.1</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>30</b>	<b>34.5</b>



**Note 1****Accounting Policies****i. General Principles**

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

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

**ii. Accruals of Income and Expenditure**

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

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

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

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

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

### **iii. Fair Value Measurement**

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

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

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

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

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

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

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

### **iv. Exceptional Items**

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively,

that is, in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

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

## **vi. Employee Benefits**

### **Benefits Payable During Employment**

#### **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 2.4% based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price;
  - unquoted securities – professional estimate;
  - unitised securities – current bid price;
  - property – market value.
- The change in the net pensions liability is analysed into the following elements:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the Directorates for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect related to years of service earned in earlier years –

allocated to Directorates in the Comprehensive Income and Expenditure Statement;

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

Re-measurements comprising:

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

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

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

#### Discretionary Benefits

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

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

Expenditure incurred during the year that may be capitalised under statutory provisions but which does not result in the creation of a non-current asset, has been charged as expenditure to the relevant Directorate in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this

expenditure from existing capital resources or by borrowing, a transfer through the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

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

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 17, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

#### **ix. Government Grants and Contributions**

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

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

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

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

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

Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account as they are applied to fund capital expenditure.

## **x. Overheads and Support Services**

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

## **xi. Property, Plant and Equipment**

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- infrastructure assets, vehicles, plant, furniture and equipment (excluding Tyseley Energy Recovery Facility) – depreciated historical cost;
- community assets and assets under construction – historical cost;

- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- where cleared land has been designated for social housing use, that land is valued using the basis of EUV-SH;
- all other assets – current value, determined as the price that would be received to sell an asset in 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.

### Impairment

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

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

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

### Useful Life

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

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

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



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

### Depreciation

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

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

### Componentisation

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

### Disposals and Non-Current Assets Held for Sale

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

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet and the gain or loss on disposal is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation

gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Gains and losses on disposal of assets are not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance through the Movement in Reserves Statement.

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

## **xii. Heritage Assets**

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

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

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

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

## **xiii. Intangible Assets**

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

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

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted

to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

#### **xiv. Investment Properties**

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

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

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

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

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

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

#### **xv. Service Concession Arrangements**

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

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

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

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

- Fair value of the services procured during the year – debited to the relevant Directorate in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – inflationary increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Payment towards liability – applied to write down the Balance Sheet liability towards the contractor;
- Lifecycle replacement costs – usually recognised as an addition to Property, Plant and Equipment when the relevant works are carried out in line with the operator's model spending profiles.

#### **xvi. Leases**

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

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

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

#### The Council as Lessee

##### Finance Leases

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and

- A finance charge – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

### Operating Leases

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

### The Council as Lessor

#### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

### Operating Leases

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

of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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

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

## **xviii. Accounting for Schools**

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

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

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

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

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

## **xix. Financial Instruments**

### Financial Liabilities

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

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

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

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

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

### Financial Assets

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

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

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

### Financial Assets Measured at Amortised Cost

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

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

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

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

#### Expected Credit Loss Model

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

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

#### Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

#### Instruments Entered Into Before 1 April 2006



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

## **xx. Cash and Cash Equivalents**

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

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

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

### Provisions

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

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

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

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

### Provision for Back Pay Arising from Equal Pay Claims

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

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

#### Contingent Liabilities

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

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

#### Contingent Assets

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

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

### **xxii. Reserves**

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

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

### **xxiii. Council Tax and Business Rates**

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

- In its capacity as a Billing Authority the Council acts as an agent, collecting and distributing Council Tax on behalf of the major preceptors and as principal for itself;
- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

### 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.

#### **xxxi. Acquired Operations**

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

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

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

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

Going Concern

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

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

Schools

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

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

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

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

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure

consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left as revenue expenditure.

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

The table below shows the number and type of schools within Birmingham at 31 March 2019.

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

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

#### Pension Guarantees

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

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

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

In the event of a guarantee being called in respect of a pension deficit, the actual amount that the Council would have to meet would be determined using the funding basis. The Council has therefore assessed any provision for future pension deficit liabilities on this basis. Details of provisions are set out in Note 32 of these Financial Statements.

#### Specialist Assets

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

#### Service Concession Arrangements – Highways PFI

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

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

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

#### Leases

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



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

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

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

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

Further details on the Better Care Fund are provided in Note 48, Related Parties.

#### The Council acting as Agent

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

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

These resources are under the control of the Greater Birmingham and Solihull Local Enterprise Partnership with decisions taken by impartial and independent Investment Boards and Committees. All governance processes are overseen by the Council.

Whilst the Council has received the funding, it is on the basis of an Accountable Body to ensure that resources are spent in compliance with the grant offer letters. Decisions in respect of the use of funds are not in the hands of the Council. The Council can only obtain use of the resources as a recipient of the normal resource allocation process.

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

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

#### Early Payment to the Local Government Pension Scheme

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

March 2016, namely 16.8% of pensionable pay plus £61.8m which was calculated to total £124m for 2018/19.

#### Sale of the NEC

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

### **Note 3**

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

The Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new or amended standard that has been issued but is not required to be adopted by the Council for the 2018/19 accounting period. For these financial statements the relevant standards are detailed:

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

#### Amendments to IAS 40 Investment Property: Transfer of Investment Property

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

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

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

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

#### IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

#### IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

#### Amendments to IFRS9 Financial Instruments: Prepayment Features with Negative Compensation

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

- What financial assets may be measured at amortised cost. The amendment permits more assets to be measured at amortised cost than under the previous version of IFRS 9, in particular some prepayable financial assets. It is likely to have the biggest impact on banks and other financial services entities and be broadly welcomed by companies.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

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

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

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

The items in the Council's Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Property, Plant and Equipment Valuations	<p>Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following MHCLG guidance, with a desktop review in the intervening years.</p> <p>The valuation of specialist assets using Depreciated Replacement Cost includes the use of building cost factors. For those assets not valued in year, updated building factors have been applied to estimate carrying values at 31 March.</p>	For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the gross carrying value of these assets by £9.0m, with a corresponding increase in the level of unusable reserves.
Heritage Asset Valuations (Museum's and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum's and Libraries' Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets.	If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.4m with a corresponding adjustment in the level of unusable reserves.
Financial Instruments	Interest rate risk - the Council is exposed to significant risk in relation to interest rate movements on its borrowing and investments.	An analysis of the impact if interest rates were 1% higher, with all other variables held constant, is set out in Note 39.
Long term obligations under, for example, PFI schemes	For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates.	The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £16.8m in 2019/20, and a further £337.8m over the remaining lives of the contracts.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Equal Pay	The Council has included a provision of £174.5m for the settlement of claims for back pay arising from the Equal Pay initiative. The Council has based its estimate on the number of claims received and on historical information on settlement of similar claims and on the current negotiations with claimants' representatives.	An increase of 1% in the average level of settlement would have the effect of increasing the provision required by £1.7m.
Business Rate Appeals	An estimate of the impact of Business Rate appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims.	An increase of 1% in the average level of settlement would have the effect of £2.1m on the provision set aside.
Defined Benefit Pension Liability	The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2018/19.	A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 21 of these financial statements.

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

The draft Statement of Accounts was authorised for issue by the Chief Finance Officer and Section 151 Officer on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

*ICT Services*

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

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

*Amey*

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 Highways Maintenance and Management PFI (HMMPFI) contract. The report recommended that the Council commence negotiation with Amey Birmingham Highways Ltd to:

- Enter into settlement agreement in respect of all disputes under the HMMPFI contract.
- procure a replacement of its operating subcontractor subject to approval under a future report to Cabinet and the approval of the Department for Transport.

It was recognised that a managed release and handover to a new provider should be put in place together with appropriate settlement to rectify liabilities left behind by Amey LG Ltd.

*Treasury Management*

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

*Transfer of Academy Schools*

Academy Schools are not accounted for within the Council's financial statements. Where a school transfers to Academy status, it is deemed to be disposed of within the financial statements for nil consideration. Between 1 April 2019 and 31 May 2019, four schools, with a net book value of £23.6m at 31 March 2019, have transferred to Academy School Trust status. To date 10 schools, with assets having a net book value of £61.6m at 31 March 2019, have confirmed their proposals to transfer to Academy School Trust status.

*Future Resource Allocations*

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council Financial Plan 2019 – 2023 sets out medium to long-term strategies for business changes and the management and development of its services. A key focus of business planning has been the achievement of the Council's priority outcomes through the adoption of a core set of corporate principles to inform service and organisational redesign where appropriate. The Council is planning to meet its anticipated expenditure reductions through a number of activities, including potential staff redundancies in 2019/20.

*Other Events*

There were no other significant events after the reporting period.

## Note 6

### Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how the Council allocates expenditure for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Figures for 2017/18 have been restated to reflect the change in Directorate structure.

	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
2017/18 (restated)	£m	£m	£m	£m	£m
Adult Social Care & Health	351.1	(12.3)	338.8	8.7	347.5
Children & Young People	215.6	23.4	239.0	71.6	310.6
Place	157.9	(7.7)	150.2	27.3	177.5
Economy	70.6	(49.1)	21.5	38.1	59.6
HR Directorate		0.6	0.6	7.9	8.5
Strategic Services	30.6	14.3	44.9	(3.3)	41.6
Finance & Governance	23.9	(28.9)	(5.0)	3.2	(1.8)
Centrally Managed	(27.9)	(2.0)	(29.9)	(0.1)	(30.0)
Chief Executive & Assistant Chief Executive		(0.3)	(0.3)	3.5	3.2
Housing Revenue Account	-	(27.4)	(27.4)	(62.6)	(90.0)
<b>Net Cost of Services</b>	<b>821.8</b>	<b>(89.4)</b>	<b>732.4</b>	<b>94.3</b>	<b>826.7</b>
Other Income and Expenditure	(821.8)	(6.9)	(828.7)	24.0	(804.7)
<b>(Surplus)/Deficit</b>	<b>-</b>	<b>(96.3)</b>	<b>(96.3)</b>	<b>118.3</b>	<b>22.0</b>
Opening General Fund and HRA Balance			417.6		
Surplus/(Deficit) for the Year			96.3		
Closing General Fund and HRA Balance			<u>513.9</u>		

	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
2018/19	£m	£m	£m	£m	£m
Adult Social Care & Health	325.7	2.0	327.7	5.9	333.6
Children & Young People	238.7	152.7	391.4	52.4	443.8
Place	155.5	43.6	199.1	(38.5)	160.6
Economy	97.5	(42.8)	54.7	29.5	84.2
HR Directorate	5.4	11.7	17.1	-	17.1
Strategic Services	25.4	13.0	38.4	2.0	40.4
Finance & Governance	28.3	(39.9)	(11.6)	1.2	(10.4)
Centrally Managed	(23.9)	(212.9)	(236.8)	181.8	(55.0)
Superannuation adjustment	-	-	-	(83.5)	(83.5)
Chief Executive & Assistant Chief Executive	2.6	(0.1)	2.5	-	2.5
Housing Revenue Account	-	(32.6)	(32.6)	(58.0)	(90.6)
<b>Net Cost of Services</b>	<b>855.2</b>	<b>(105.3)</b>	<b>749.9</b>	<b>92.8</b>	<b>842.7</b>
Other Income and Expenditure	(855.2)	53.1	(802.1)	(21.3)	(823.4)
<b>(Surplus)/Deficit</b>	<b>-</b>	<b>(52.2)</b>	<b>(52.2)</b>	<b>71.5</b>	<b>19.3</b>
Opening General Fund and HRA Balance			513.9		
IFRS9 Opening Balance Adjustment			(0.5)		
Surplus/(Deficit) for the Year			52.2		
Closing General Fund and HRA Balance			<u>565.6</u>		



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

This analysis provides detail of the main adjustments from the Net Expenditure Chargeable to the General Fund and HRA balances to the Comprehensive Income and Expenditure Statement. Figures for 2017/18 have been restated to reflect the change in Directorate structure.

2017/18 (Restated)	Depreciation reported at Directorate Level	Reserve Appropriation	Other Adjustments (Note (a))	Total to arrive at amount charged to the General Fund and HRA	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Adjustments (Note (b))	Total Adjustment Between Funding and Accounting Basis
	£m	£m	£m	£m	£m	£m	£m	£m
Adult Social Care & Health	(2.7)	(13.3)	3.7	<b>(12.3)</b>	3.0	6.1	(0.4)	<b>8.7</b>
Children & Young People	(41.9)	4.5	60.8	<b>23.4</b>	55.6	18.8	(2.8)	<b>71.6</b>
Place	(16.4)	3.8	4.9	<b>(7.7)</b>	20.5	6.8	-	<b>27.3</b>
Economy	(25.8)	(23.4)	0.1	<b>(49.1)</b>	37.6	2.0	(1.5)	<b>38.1</b>
HR Directorate	-	0.2	0.4	<b>0.6</b>	-	0.1	7.8	<b>7.9</b>
Strategic Services	(1.4)	2.5	13.2	<b>14.3</b>	2.0	6.1	(11.3)	<b>(3.3)</b>
Finance & Governance	(2.4)	5.8	(32.3)	<b>(28.9)</b>	1.2	1.7	0.3	<b>3.2</b>
Centrally Managed	(17.2)	(73.9)	89.1	<b>(2.0)</b>	13.2	0.8	(14.1)	<b>(0.1)</b>
Chief Executive & Assistant Chief Executive	-	(0.3)	-	<b>(0.3)</b>	-	-	3.5	<b>3.5</b>
Housing Revenue Account	(50.9)	(2.2)	25.7	<b>(27.4)</b>	83.5	2.3	(148.4)	<b>(62.6)</b>
Net Cost of Services	(158.7)	(96.3)	165.6	<b>(89.4)</b>	216.6	44.7	(167.0)	<b>94.3</b>
Other Income and Expenditure	158.7	-	(165.6)	<b>(6.9)</b>	14.9	73.9	(64.8)	<b>24.0</b>
<b>(Surplus)/Deficit</b>	<b>-</b>	<b>(96.3)</b>	<b>-</b>	<b>(96.3)</b>	<b>231.5</b>	<b>118.6</b>	<b>(231.8)</b>	<b>118.3</b>

2018/19	Depreciation reported at Directorate Level	Reserve Appropriation	Other Adjustments (Note (a))	Total to arrive at amount charged to the General Fund and HRA	Adjustments for Capital Purposes	Net Change for the Pensions Adjustment	Other Adjustments (Note (b))	Total Adjustment Between Funding and Accounting Basis
	£m	£m	£m	£m	£m	£m	£m	£m
Adult Social Care & Health	(8.0)	(8.6)	18.6	2.0	6.0	-	(0.1)	5.9
Children & Young People	(117.2)	5.0	265.0	152.7	63.7	-	(11.3)	52.4
Place	(57.7)	0.8	100.5	43.6	19.2	-	(57.9)	(38.5)
Economy	(70.0)	(83.2)	110.4	(42.8)	30.3	-	(0.8)	29.5
HR Directorate	-	0.2	11.5	11.7	-	-	-	-
Strategic Services	(6.9)	4.4	15.4	13.0	1.9	--	0.1	2.0
Finance & Governance	(6.8)	0.9	(33.9)	(39.9)	1.3	-	(0.1)	1.2
Centrally Managed	(0.1)	28.7	(241.5)	(212.9)	31.6	(3.6)	153.8	181.8
Superannuation Adjustment	-	-	-	-	-	(83.5)	-	(83.8)
Chief Executive & Assistant Chief Executive	-	(0.1)	-	(0.1)	-	-	-	-
Housing Revenue Account	(1.3)	(0.3)	(31.0)	(32.6)	79.5	2.3	(139.8)	(58.0)
Net Cost of Services	(268.0)	(52.2)	215.0	(105.3)	233.5	(84.6)	(56.1)	92.8
Other Income and Expenditure	268.0	-	(215.0)	53.1	(65.5)	63.6	(19.4)	(21.3)
<b>(Surplus)/Deficit</b>	<b>0.0</b>	<b>(52.2)</b>	<b>-</b>	<b>(52.2)</b>	<b>168.0</b>	<b>(21.0)</b>	<b>(75.5)</b>	<b>71.5</b>

## Notes

- (a) – includes levies, PFI grants and interest receipts and payments that are reported as part of Outturn but not included in Net Cost of Services within the CIES
- (b) – includes employee benefits accruals, the difference between amounts charged to the CIES for equal pay claims and the cost of settlements chargeable in year in accordance with statutory requirements; timing differences between what is chargeable under statutory regulation for Council Tax and Business Rates that were forecast to be received at the start of the year and the income recognised under generally accepted accounting practice.

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

The Council realigned its reporting structure in 2018/19. The implications of the realignment on the CIES are detailed below.

Directorate Reporting 2017/18	As Reported in the Comprehensive Income and Expenditure Statement 2017/18 £m	Adjustments in Internal Directorate Reporting Classifications between years £m	As Restated in 2017/18 £m	New Directorate Reporting 2017/18
<b>Net Expenditure</b>				
<u>Continuing Operations</u>				
Adult Social Care & Health	347.5	-	347.5	Adult Social Care & Health
Children & Young People	310.6	-	310.6	Children & Young People
Place	177.5	-	177.5	Place
Economy	59.6	-	59.6	Economy
		8.5	8.5	HR Directorate
Strategic Services	53.3	(11.6)	41.7	Strategic Services
Finance & Governance	(1.8)	-	(1.8)	Finance & Governance
Centrally Managed	(30.0)	-	(30.0)	Centrally Managed
		3.1	3.1	Chief Executive & Assistant Chief Executive
Housing Revenue Account	(90.0)	-	(90.0)	Housing Revenue Account
<b>Net Cost of Services</b>	<b>826.7</b>	<b>-</b>	<b>826.7</b>	
<b>Gross Expenditure</b>				
<u>Continuing Operations</u>	£m	£m	£m	
Adult Social Care & Health	554.9	-	554.9	Adult Social Care & Health
Children & Young People	1,111.4	-	1,111.4	Children & Young People
Place	264.1	-	264.1	Place
Economy	149.2	-	149.2	Economy
		9.8	9.8	HR Directorate
Strategic Services	640.5	(12.9)	627.6	Strategic Services
Finance & Governance	5.8	-	5.8	Finance & Governance
Centrally Managed	34.5	-	34.5	Centrally Managed
		3.1	3.1	Chief Executive & Assistant Chief Executive
Housing Revenue Account	196.7	-	196.7	Housing Revenue Account
<b>Gross Cost of Services</b>	<b>2,957.1</b>	<b>-</b>	<b>2,957.1</b>	
<b>Gross Income</b>				
<u>Continuing Operations</u>	£m	£m	£m	
Adult Social Care & Health	(207.4)	-	(207.4)	Adult Social Care & Health
Children & Young People	(800.8)	-	(800.8)	Children & Young People
Place	(86.6)	-	(86.6)	Place
Economy	(89.6)	-	(89.6)	Economy
		(1.3)	(1.3)	HR Directorate
Strategic Services	(587.2)	1.3	(585.9)	Strategic Services
Finance & Governance	(7.6)	-	(7.6)	Finance & Governance
Centrally Managed	(64.5)	-	(64.5)	Centrally Managed
		-	-	Chief Executive & Assistant Chief Executive
Housing Revenue Account	(286.7)	-	(286.7)	Housing Revenue Account
<b>Gross Income of Services</b>	<b>(2,130.4)</b>	<b>-</b>	<b>(2,130.4)</b>	

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

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

2017/18		2018/19
£m	<b>Expenditure</b>	£m
1,071.1	Employee Benefits Expenses	925.0
1,762.7	Other Service Expenses	1,767.0
158.5	Depreciation, Amortisation and Impairment	268.0
253.1	Interest Payments	265.4
52.9	Precepts and Levies	50.0
6.3	Payments to Housing Capital Receipts Pool	6.3
14.0	Loss on Disposal of Non-Current Assets	5.5
<b>3,318.6</b>	<b>Total Expenditure</b>	<b>3,287.2</b>
	<b>Income</b>	
(634.4)	Fees, Charges and Other Services Income	(568.3)
(737.5)	Income from Council Tax and Business Rates	(762.9)
(1,905.7)	Government Grants and Contributions	(1,908.4)
(19.0)	Interest and Investment Income	(27.3)
<b>(3,296.6)</b>	<b>Total Income</b>	<b>(3,267.9)</b>
<b>22.0</b>	<b>(Surplus)/Deficit on Provision of Services</b>	<b>19.3</b>

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

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

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

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

Item	2017/18 £m	2018/19 £m
Cost of Services		
Service Cost	185.1	57.4
Financing Income and Expenditure Statement		
Net Interest on the Net Defined Liability	73.9	63.6
<b>Total Charged to the (Surplus)/Deficit on the provision of services</b>	<b>259.0</b>	<b>121.0</b>

The reduction in service cost in 2018/19 compared to 2017/18 is mainly as a result of settlements paid in 2018/19 compared to settlements paid in 2017/18 as set out in Note 21.

The negative expenditure in respect of the superannuation adjustment in 2018/19 represents the difference between the actual charge out to services based on the contribution rates assessed by the actuary and the additional payments due compared to the actuarial assessment of the charge in year. This enables the cost of individual services to be compared more easily between years and between local authorities as the actuarial assessment can vary significantly from year to year.

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

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

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

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

**Note 12****Financing and Investment Income and Expenditure**

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

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

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

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

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

2017/18			2018/19			
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
-	(310.4)	(310.4)	Council Tax Income -	-	(329.2)	(329.2)
-	(401.7)	(401.7)	Collection Fund	-	(421.5)	(421.5)
-	(2.0)	(2.0)	Business Rates -	-	(4.4)	(4.4)
1.7	(23.3)	(21.6)	Collection Fund	2.2	(7.9)	(5.7)
-	(281.0)	(281.0)	Share of Collection Fund -	-	(236.8)	(236.8)
-	(95.5)	(95.5)	Council Tax	-	(126.5)	(126.5)
0.1	-	0.1	Share of Collection Fund -	-	0.2	0.2
			Business Rates			
			Non Ring Fenced			
			Government Grants			
			Capital Grants and			
			Contributions			
			Capital Grants Repaid			
<b>1.8</b>	<b>(1,113.9)</b>	<b>(1,112.1)</b>	<b>Total</b>	<b>2.2</b>	<b>(1,126.1)</b>	<b>(1,123.9)</b>

Further information on grant income received is provided in Note 15.

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

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

The internal trading expenditure and income is incorporated within the relevant service line in the Comprehensive Income and Expenditure Statement. External trading income and expenditure is identified in Note 12, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

2017/18			Trading activity	2018/19		
Turnover £m	Expenditure £m	(Surplus) / Deficit £m		Turnover £m	Expenditure £m	(Surplus) / Deficit £m
(41.0)	40.3	(0.7)	Cityserve (Direct Services)	(33.4)	31.3	(2.1)
(10.3)	9.1	(1.2)	Trade Refuse	(10.2)	9.3	(0.9)
(6.0)	6.3	0.3	Birmingham Parks and Nurseries	(5.6)	6.1	0.5
(0.6)	1.1	0.5	Pest Control	(0.7)	1.2	0.5
(2.6)	3.7	1.1	Procurement	(2.6)	3.4	0.8
(3.6)	3.8	0.2	Schools' Human Resources	(3.2)	3.5	0.3
(1.9)	2.1	0.2	Central Payroll	(1.9)	1.7	(0.2)
(3.5)	3.3	(0.2)	Other Trading Activities	(3.5)	3.3	(0.2)
<b>(69.5)</b>	<b>69.7</b>	<b>0.2</b>		<b>(61.1)</b>	<b>59.8</b>	<b>(1.3)</b>
			Allocation of Surplus/Deficit on Trading Operations			
(37.8)	38.6	0.8	- consolidated in CIES	(28.7)	28.7	-
(31.7)	31.1	(0.6)	- consolidated in Note 12, Financing and Investment Income and Expenditure	(32.4)	31.1	(1.3)
<b>(69.5)</b>	<b>69.7</b>	<b>0.2</b>		<b>(61.1)</b>	<b>59.8</b>	<b>(1.3)</b>

### Details of Trading Activities

#### **Cityserve**

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

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

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

#### **Trade Refuse**

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

#### **Birmingham Parks and Nurseries**

Birmingham Parks and Nurseries is responsible for the maintenance of all of the Council's parks and open spaces, as well as the floral displays that have helped to promote the City

over the years. In addition, it looks after all of the 'green' maintenance of Council estates, highway verges, traffic islands, schools, residential care homes, cemeteries and crematoria, playing fields, allotments and children's outdoor playgrounds.

### **Pest Control**

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

### **Procurement Services**

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

### **Schools' Human Resources**

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

### **Payroll Services**

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

### **Other**

Other trading activities include Shelforce 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**

### **Grant Income**

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

2017/18		2018/19
£m		£m
	<b>Credited to Taxation and Non Specific Grant Income</b>	
125.3	Business Rates Top Up Grant	89.9
15.0	New Homes Bonus Grant	8.8
18.2	Schools PFI Grant	18.2
50.3	Highways Management and Maintenance PFI Grant	50.3
5.1	Troubled Families Grant	4.3
5.3	Housing Benefit Administration Grant	4.8
5.3	Discretionary Housing Payment	4.8
3.0	Education Services Grant	-
24.6	Small Business Rate Relief Grant	29.9
6.3	Business Rates S31 Grant	9.7
3.8	Children's Trust Grant	-
-	Returned Levy Funding	5.4
5.6	Adult Social Care Support Grant	3.5
13.2	Other	7.2
<b>281.0</b>	<b>Revenue Grants credited to Taxation and Non Specific Grant Income</b>	<b>236.8</b>



2017/18 £m		2018/19 £m
	<b>Credited to Cost of Services</b>	
10.5	Adult Education (Skills Funding Agency)	10.6
533.7	Housing Benefit Subsidy	506.4
657.2	Dedicated Schools Grant	660.7
13.6	Education Funding Agency	12.4
48.0	Pupil Premium Grant	46.9
3.6	Illegal Money Lending	3.8
9.6	Universal Infants Free School Meals Grant	10.3
9.7	NHS Clinical Commissioning Group contributions	12.5
93.2	Public Health Grant	90.8
69.1	Better Care Fund (including improved Better Care Fund)	83.1
4.3	Independent Living Fund Grant	4.2
10.2	Youth Promise	4.4
4.5	Asylum Seekers	5.5
3.8	Flexible Homeless Support	5.3
3.1	Enterprise Zone - Projects	3.8
3.1	Primary PE and Sport Grant	6.2
-	Adult Social Care - Winter Pressures	5.6
37.4	Grants and contributions of less than £3m	46.3
<b>1,514.6</b>	<b>Total Revenue Grants Credited to Cost of Services</b>	<b>1,518.8</b>
<b>1,795.6</b>	<b>Total Revenue Grants</b>	<b>1,755.6</b>
	<b>Capital Grants</b>	
42.3	Education Funding Agency	53.5
-	Commonwealth Games – MHCLG	23.2
-	Commonwealth Games - West Midlands Combined Authority	10.6
3.2	Lottery	-
4.7	Department of Health - Better Care Fund	6.0
4.9	Integrated Transport Block	5.2
4.8	Homes & Community Agency - New Build Programme	6.2
18.2	Department for Transport	-
10.9	Local Growth Fund	12.5
6.5	Other Grants and Contributions	9.3
<b>95.5</b>	<b>Capital Grants credited to Taxation and Non Specific Grant Income</b>	<b>126.5</b>
	<b>Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services</b>	
6.0	Department of Health - Better Care Fund	5.9
4.0	European Regional Development Fund	7.6
4.6	Other Grants and Contributions	2.3
<b>14.6</b>	<b>Total Capital Grants funding Revenue Expenditure Under Statute</b>	<b>15.8</b>
<b>110.1</b>	<b>Total Capital Grants Received</b>	<b>142.3</b>

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2018/19. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS) where the grant is credited to the service line in the Comprehensive Income and Expenditure Statement.

**Note 16****Dedicated Schools Grant**

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

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

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

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

- A net deficit of £15.5m on the High Needs block which reflects the demographic impact of increased numbers of placements with Special Educational Needs and Disabilities requiring high cost provision. This has been compounded by increases in the costs of provision particularly where the placements are in the independent sector. The service is looking to develop and implement a 5 year deficit recovery plan in 2019/20, this includes £0.5m funding to be applied to invest to save initiatives from 2018/19.
- A surplus of £3m on the Schools block funding is primarily composed of lower than anticipated commitments against prescribed centrally managed DSG budgets, specifically the pupil growth fund and falling pupils fund.
- A surplus of £3.8m on the Early Years block is primarily due to lower take up of 3 & 4 year old provision, including working parents.

**Note 17****Adjustments Between Accounting Basis and Funding Basis Under Regulations**

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

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£m	£m	£m	£m	£m
2018/19					
<b>Adjustments to Revenue Resources</b>					
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)	(31.4)	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)	196.5	79.5	-	-	72.0
<b>Total Adjustments to Revenue Resources</b>	<b>210.3</b>	<b>91.8</b>	<b>-</b>	<b>-</b>	<b>72.0</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(29.8)	(54.6)	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)	-	-
Reclassification of grants originally treated as capital grants	-	-	-	-	-
Share of capital receipts received due to third parties	-	-	-	-	-
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)	(139.9)	(35.3)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(13.3)	(0.2)	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(88.9)</b>	<b>(141.8)</b>	<b>(10.7)</b>	<b>51.7</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(57.8)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(53.1)	-	-
Capital Receipts arising from investment restructuring	-	-	-	-	-
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)
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(69.4)</b>	<b>(55.4)</b>	<b>(72.3)</b>
<b>Total Adjustments</b>	<b>121.4</b>	<b>(50.0)</b>	<b>(80.1)</b>	<b>(3.7)</b>	<b>(0.3)</b>

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied
	£m	£m	£m	£m	£m
2017/18					
<b>Adjustments to Revenue Resources</b>					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	112.3	6.2	-	-	-
Financial Instruments (transferred to/from the Financial Instrument Adjustments Account)	16.7	-	-	-	-
Council Tax and Business Rates (transfers to/from the Collection Fund)	(28.6)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(0.5)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	7.5	(0.9)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	147.9	83.6	-	-	62.2
<b>Total Adjustments to Revenue Resources</b>	<b>255.3</b>	<b>88.9</b>	<b>-</b>	<b>-</b>	<b>62.2</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(71.7)	(59.1)	123.0	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	1.7	-	(1.7)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	19.0	-	(19.0)	-	-
Reclassification of grants originally treated as capital grants	2.4	-	-	-	(2.4)
Share of capital receipts received due to third parties	-	-	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.3	-	(6.3)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(50.3)	-	50.3	-
Provision for the repayment of debt (transfer to the Capital Adjustment Account)	(29.2)	(37.9)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(6.8)	(0.3)	-	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(78.3)</b>	<b>(147.6)</b>	<b>96.0</b>	<b>50.3</b>	<b>(2.4)</b>
<b>Adjustments to Capital Resources</b>					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(49.2)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(10.3)	-	-
Capital Receipts arising from investment restructuring	-	-	-	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(60.7)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(47.9)
Cash payments in relation to deferred capital receipts	-	-	5.1	-	-
Other	-	-	0.5	-	(0.1)
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>-</b>	<b>(53.9)</b>	<b>(60.7)</b>	<b>(48.0)</b>
<b>Total Adjustments</b>	<b>177.0</b>	<b>(58.7)</b>	<b>42.1</b>	<b>(10.4)</b>	<b>11.8</b>

## Note 18

### Usable Reserves

Details of the major reserves held by the Council are set out below. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 17.

The Reserves have been split into the following major categories:

- Unearmarked Reserves – Reserves that the Council can use for any purpose within the General Fund
- Earmarked Reserves – Reserves that the Council has set aside to meet specific future liabilities
- Grant Reserves – Reserves arising as a result of revenue grants received by the Council for specific projects that haven't been fully utilised by 31 March 2019 but will be used to offset expenditure incurred in subsequent years
- Ringfenced Reserves – Reserves that are required to be used for specific activities undertaken by the Council. These are mainly for schools or for the Housing Revenue Account and cannot be used to support general Council activity
- Capital Reserves – Reserves that have been set aside to finance capital schemes. These reserves cannot be used to support revenue expenditure without the consent of the Secretary of State.

<b>Usable Reserves</b>	Balance at 31 March 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£m	£m	£m	£m
<b><u>Unearmarked Reserves</u></b>				
General Fund Balances	28.9	(33.7)	21.0	16.2
Carry Forward Balance	1.8	(1.8)	-	-
Invest to Save Reserve	41.5	(6.1)	-	35.4
Financial Resilience Reserve	98.2	(11.5)	5.7	92.4
<b>Total Unearmarked Reserves</b>	<b>170.4</b>	<b>(53.1)</b>	<b>26.7</b>	<b>144.0</b>
<b><u>Earmarked Reserves</u></b>				
Insurance Fund	11.2	(1.4)	-	9.8
Highways PFI Earmarked Reserve	6.4	(6.4)	-	-
Sums set aside to finance Capital Expenditure	43.3	(0.7)	3.5	46.1
Treasury Management Reserve	1.8	(1.8)	-	-
Housing Benefit Subsidy Reserve	4.2	-	-	4.2
Cyclical Maintenance Reserve	8.5	(1.8)	4.0	10.7
Equipment Renewal Reserve	5.5	(1.2)	1.6	5.9
Support to the Business Plan	3.7	(3.7)	-	-
Management Capacity for Change	6.8	(6.8)	2.8	2.8
Troubled Families	3.7	(3.7)	-	-
Children's Trust	2.0	(2.0)	-	-
Business Rates	10.6	(12.9)	14.7	12.4
Other Earmarked Reserves	23.2	(27.4)	18.8	14.6
<b>Total Reserves Earmarked by the Council</b>	<b>130.9</b>	<b>(69.8)</b>	<b>45.4</b>	<b>106.5</b>

<b>Usable Reserves</b>	Balance at 31 March 2018 £m	Transfers Out 2018/19 £m	Transfers In 2018/19 £m	Balance at 31 March 2019 £m
<b><u>Revenue Grant Reserves</u></b>				
Section 256 Grant from the NHS	1.2	-	-	1.2
Public Health	2.8	-	2.5	5.3
Better Care Fund	21.4	(5.2)	8.8	25.0
Highways PFI Grant	99.7	(14.7)	95.8	180.8
Section 106 Grants	21.5	(4.5)	9.0	26.0
Non-Schools' DSG	2.3	-	5.0	7.3
Community Infrastructure Levy	3.2	-	6.3	9.5
National Business Rate Levy	-	-	5.4	5.4
Other Grant Reserves	19.9	(13.7)	8.6	14.8
<b>Total Revenue Grant Reserves</b>	<b>172.0</b>	<b>(38.1)</b>	<b>141.4</b>	<b>275.3</b>
<b><u>Ringfenced Reserves</u></b>				
Schools' Balances	35.8	(5.7)	4.1	34.2
Housing Revenue Account	4.8	-	0.6	5.4
HRA Major Repairs Reserve	28.6	(55.4)	51.7	24.9
<b>Total Ringfenced Reserves</b>	<b>69.2</b>	<b>(61.1)</b>	<b>56.4</b>	<b>64.5</b>
<b><u>Capital Reserves</u></b>				
Capital Receipts Reserve	320.4	(205.0)	125.0	240.4
Capital Grants Unapplied	107.0	(72.3)	72.0	106.7
<b>Total Capital Reserves</b>	<b>427.4</b>	<b>(277.3)</b>	<b>197.0</b>	<b>347.1</b>
<b>Total Usable Reserves</b>	<b>969.9</b>	<b>(499.4)</b>	<b>466.9</b>	<b>937.4</b>

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

Unearmarked Reserves comprising:

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

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

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



Earmarked Reserves comprising:

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

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

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

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

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

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

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

- A contingency in case there is a requirement to make a payment under the Council's "no detriment" agreement with the other West Midlands Business Rates Retention Pilot authorities.
- To address the timing difference between grant received and when the Council has assumed it will be required.

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery. The reserves cover a wide range of areas and include, for example, resources earmarked for special educational needs reform, a local innovations fund, highways initiatives, subvention for major events, replacement IT systems and repairs and maintenance for specific service chargeable buildings in support of the Financial Plan.

Revenue Grant reserves comprising:

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

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

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

Ringfenced reserves comprising:

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. Within the total Schools' Balances there are 53 (2017/18:37) schools with deficit balances totalling £12.6m (2017/18: £11.0m) and a deficit balance on the Non-Schools Dedicated Schools Grant of £15.5m (2017/18: £13.8m) as a result of the impact of increasing numbers of pupils with Special Educational Needs.

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

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

Capital reserves comprising:

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

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

## Note 19

### Unusable Reserves

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

31 March 2018		31 March 2019
£m		£m
1,885.4	Revaluation Reserve	2,073.8
(0.3)	Available for Sale Financial Instruments Reserve	-
(428.9)	Capital Adjustment Account	(342.7)
(25.9)	Financial Instruments Adjustment Account	(48.1)
(2,836.1)	Pensions Reserve	(2,627.6)
41.8	Deferred Capital Receipts Reserve	37.7
18.0	Collection Fund Adjustment Account	10.0
(151.8)	Equal Pay Back Pay Account	(174.5)
(19.9)	Accumulated Absences Account	(14.0)
<b>(1,517.7)</b>	<b>Total Unusable Reserves</b>	<b>(1,085.4)</b>

#### Revaluation Reserve

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

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

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

2017/18		2018/19
£m	£m	£m
	<b>1,542.1</b>	<b>1,885.4</b>
592.5	<b>Balance at 1 April</b>	461.1
(197.3)	Upward revaluation of assets	
	Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(228.5)
-	Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of Services	-
	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services	
	395.2	232.6
(19.0)	Difference between fair value depreciation and historical cost depreciation	(23.1)
(32.9)	Accumulated gains on assets sold or scrapped	(21.1)
-	Adjustment for Transfer of land to Investment Property	-
	(51.9)	(44.2)
<b>1,885.4</b>	<b>Balance at 31 March</b>	<b>2,073.8</b>

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve previously contained the changes in fair value recognised by the Council arising from changes in the value of its investments that have quoted market prices or otherwise do not have fixed or determinate payments. Following the implementation of IFRS9, Financial Instruments, the reserve has now been subsumed into the Capital Adjustment Account.

2017/18 £m		2018/19 £m
<b>0.5</b>	<b>Balance at 1 April</b>	<b>(0.3)</b>
-	Transfer to Capital Adjustment Account	<b>0.3</b>
<b>0.5</b>	<b>Adjusted Balance 1 April</b>	-
(0.8)	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
<b>(0.3)</b>		-
-	Accumulated gains/(losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
<b>(0.3)</b>	<b>Balance at 31 March</b>	-

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

2017/18			2018/19	
£m	£m		£m	£m
	<b>(411.9)</b>	<b>Balance at 1 April</b>		<b>(428.9)</b>
	-	Adjustment for the Restatement of Financial Instruments		(0.5)
	-	Transfer from Available for Sale Reserve		(0.3)
	<b>(411.9)</b>	<b>Restated Opening Balance at 1 April</b>		<b>(429.7)</b>
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(137.1)		Charges for depreciation and impairment of non current assets	(260.9)	
5.7		Revaluation losses on Property, Plant and Equipment	1.4	
(8.0)		Amortisation and impairment of intangible assets	(8.2)	
1.6		Changes in the Fair Value of Investment Properties	1.4	
(17.7)		Impairment of Capital Debtors/Grants	(0.4)	
(60.1)		Revenue expenditure funded from capital under statute	(59.5)	
(143.1)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(88.3)	
-		Amounts of financial instruments written off on disposal/sale as part of the gain/(loss) on disposal to the CIES	-	
	(358.7)			(414.5)
	51.9	Adjusting amounts written out of the Revaluation Reserve		44.2
	(306.8)	Net written out amount of the cost of non-current assets consumed in the year		(370.3)
		Capital financing applied in the year:		
49.2		Use of the Capital Receipts Reserve to finance new capital expenditure	57.8	
60.7		Use of the Major Repairs Reserve to finance new capital expenditure	55.4	
47.9		Capital grants and contributions credited to the CIES that have been applied to capital financing	70.3	
47.9		Application of grants to capital financing from the Capital Grants Unapplied Account	72.2	
10.3		Application of capital receipts to repay debt	53.1	
67.1		Provision for the financing of capital investment charged against the General Fund and HRA balances	175.2	
7.1		Capital expenditure charged against the General Fund and HRA balances	13.5	
	290.2			497.5
	-	Amortisation of Investments debited to the CIES		-
	0.1	Financing of capital grant repayment		0.2
	(0.5)	Repayment of long term debtors		(40.4)
	<b>(428.9)</b>	<b>Balance at 31 March</b>		<b>(342.7)</b>

### Financial Instruments Adjustment Account

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

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

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

### Pensions Reserve

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

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

2017/18 £m		2018/19 £m
<b>(2,870.7)</b>	<b>Balance at 1 April</b>	<b>(2,836.1)</b>
153.1	Remeasurement of the net defined benefit liability	187.4
(259.0)	Reversal of items relating to retirement benefits debited or credited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(120.9)
140.5	Employer's pensions contributions and direct payments to retirees payable in the year	142.0
<b>(2,836.1)</b>	<b>Balance at 31 March</b>	<b>(2,627.6)</b>

#### Deferred Capital Receipts Reserve

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

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

Collection Fund Adjustment Account

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

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

Equal Pay Back Pay Account

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

2017/18 £m		2018/19 £m
<b>(145.2)</b>	<b>Balance at 1 April</b>	<b>(151.8)</b>
(26.6)	(Increase)/reduction in provision for back pay in relation to Equal Pay cases	(110.5)
20.0	Cash settlements paid in the year	87.8
	Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(22.7)
(6.6)		
<b>(151.8)</b>	<b>Balance at 31 March</b>	<b>(174.5)</b>



Accumulated Absences Account

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

2017/18 £m		2018/19 £m
(20.5)	<b>Balance at 1 April</b>	<b>(19.9)</b>
1.1	Settlement or cancellation of accrual made at the end of the preceding year	-
(0.5)	Amounts accrued at the end of the current year	5.9
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	5.9
<b>(19.9)</b>	<b>Balance at 31 March</b>	<b>(14.0)</b>

**Note 20****Pension Schemes Accounted for as Defined Contribution Schemes**Teachers' Pension Scheme

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

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

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

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

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

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

### NHS Pension Scheme

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

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

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

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

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

## **Note 21**

### **Defined Benefit Pension Schemes**

#### Participation in Pension Schemes

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

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

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund offices at Wolverhampton City Council – this is a funded defined benefit career average salary scheme for benefits accrued since 1 April 2014, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. Benefits accrued to 31 March 2014 are based on final salary. An employer's future service contribution rate of 16.8% was set for the Council for 2018/19 (2017/18: 15.3%).
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

The principal risks to the Council of the scheme are:

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

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

#### Transactions relating to Post-employment benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2017/18	2018/19	2017/18	2018/19
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	154.6	128.3		
past service costs	-	-		
effect of curtailments	4.1	6.7		
effect of settlements	24.7	(79.6)		
administration expenses	1.7	2.0		
Financing and investment income and expenditure:				
Net interest expense	72.8	62.0	1.1	1.6
<b>Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services</b>	<b>257.9</b>	<b>119.4</b>	<b>1.1</b>	<b>1.6</b>
Movement in Reserves Statement				
Reversal of net charges made to the Surplus/Deficit on the provision of services for post-employment benefits in accordance with the Code	(123.4)	(107.4)	4.9	4.4
Net charge against the General Fund Balance for pensions in the year comprising:				
employer's contributions payable to scheme	134.5	12.0		
retirement benefits payable to retirees			6.0	6.0
Comprehensive Income and Expenditure Statement				
Total post-employment benefit charged to the (Surplus)/Deficit on the provision of services	257.9	119.4	1.1	1.6
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement				
remeasurements (liabilities and assets)	(162.2)	(185.6)	9.1	1.8
<b>Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement</b>	<b>95.7</b>	<b>(66.2)</b>	<b>10.2</b>	<b>3.4</b>

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
<b>Present Value of Liabilities</b>					
- Local Government Pension Scheme	(5,548.6)	(5,284.8)	(6,863.0)	(6,919.7)	(6,658.0)
- Unfunded Teachers' Scheme	(69.3)	(68.5)	(64.2)	(68.5)	(62.2)
<b>Total Present Value of Liabilities</b>	<b>(5,617.8)</b>	<b>(5,353.3)</b>	<b>(6,927.2)</b>	<b>(6,988.2)</b>	<b>(6,720.3)</b>
 Fair Value of Assets in the Local Government Pension Scheme	 3,324.2	 3,265.6	 4,056.6	 4,400.3	 4,216.8
<b>Surplus/(Deficit) in the scheme</b>					
- Local Government Pension Scheme	(2,224.3)	(2,019.2)	(2,806.4)	(2,519.4)	(2,441.2)
- Unfunded Teachers' Scheme	(69.3)	(68.5)	(64.2)	(68.5)	(62.2)
<b>Net Liability arising from defined benefit obligation</b>	<b>(2,293.6)</b>	<b>(2,087.7)</b>	<b>(2,870.7)</b>	<b>(2,587.9)</b>	<b>(2,503.4)</b>

#### Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme				Unfunded Teachers' Pension Scheme		Total	
	Funded	Unfunded						
	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m	2017/18 £m	2018/19 £m
Benefit Obligation at 1 April	6,793.2	6,854.8	69.8	64.9	64.2	68.5	6,927.2	6,988.2
Current Service Cost	154.6	128.3					154.6	128.3
Interest on Pension Liabilities	189.3	166.4	1.8	1.6	1.1	1.6	192.2	169.5
Member Contributions	26.8	23.0					26.8	23.0
Past service cost/(gain)								
Actuarial (gains)/losses arising from changes in financial assumptions	(252.7)	(135.6)	(1.2)	(2.0)	9.1	(1.9)	(244.8)	(139.5)
Curtailments	4.1	6.7					4.1	6.7
Settlements	134.9	(249.9)					134.9	(249.9)
Benefits/Transfers paid	(195.4)	(194.9)	(5.5)	(5.3)	(5.9)	(6.0)	(206.8)	(206.1)
<b>Benefit Obligation at 31 March</b>	<b>6,854.8</b>	<b>6,598.8</b>	<b>64.9</b>	<b>59.2</b>	<b>68.5</b>	<b>62.2</b>	<b>6,988.2</b>	<b>6,720.2</b>

Reconciliation of the Movements in the Fair Value of Scheme Assets

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

Local Government Pension Scheme assets

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

	31 March 2018				31 March 2019			
	Quoted £m	Unquoted £m	Total £m	Percentage of Total %	Quoted £m	Unquoted £m	Total £m	Percentage of Total %
<b>Equity Instruments</b>								
UK Quoted	431.4		431.4	9.8%	413.4		413.4	9.8%
UK Unquoted		61.1	61.1	1.4%		58.5	58.5	1.4%
Global Quoted	417.3		417.3	9.5%	399.9		399.9	9.5%
Global Unquoted		283.9	283.9	6.5%		272.0	272.0	6.5%
Europe	382.0		382.0	8.7%	366.1		366.1	8.7%
Japan	190.9		190.9	4.3%	183.0		183.0	4.3%
Pacific Basin	196.7		196.7	4.5%	188.5		188.5	4.5%
North America	389.5		389.5	8.9%	373.2		373.2	8.9%
Emerging Markets	356.8		356.8	8.1%	341.9		341.9	8.1%
<b>Sub-total Equity</b>	<b>2,364.7</b>	<b>344.9</b>	<b>2,709.6</b>	<b>61.6%</b>	<b>2,266.1</b>	<b>330.5</b>	<b>2,596.6</b>	<b>61.6%</b>
<b>Bonds</b>								
UK Government		300.9	300.9	6.8%		288.3	288.3	6.8%
Other	198.4	208.6	406.9	9.2%	190.1	199.9	390.0	9.2%
<b>Sub-total Bonds</b>	<b>198.4</b>	<b>509.4</b>	<b>707.8</b>	<b>16.1%</b>	<b>190.1</b>	<b>488.2</b>	<b>678.3</b>	<b>16.1%</b>
<b>Property</b>								
UK		249.9	249.9	5.7%		239.5	239.5	5.7%
Overseas								
Property Funds		99.4	99.4	2.3%		95.2	95.2	2.3%
<b>Sub-total Property</b>		<b>349.2</b>	<b>349.2</b>	<b>7.9%</b>		<b>334.7</b>	<b>334.7</b>	<b>7.9%</b>
<b>Alternatives</b>								
Infrastructure		182.9	182.9	4.2%		175.2	175.2	4.1%
Absolute Return		174.2	174.2	4.0%		166.9	166.9	4.0%
<b>Sub-total Alternatives</b>		<b>357.1</b>	<b>357.1</b>	<b>8.1%</b>		<b>342.2</b>	<b>342.2</b>	<b>8.1%</b>
<b>Cash</b>								
Cash Instruments		238.8	238.8	5.4%		228.8	228.8	5.4%
Cash Accounts		37.8	37.8	0.9%		36.2	36.2	0.9%
<b>Sub-total Cash</b>		<b>276.6</b>	<b>276.6</b>	<b>6.3%</b>		<b>265.0</b>	<b>265.0</b>	<b>6.3%</b>
<b>Total Assets</b>	<b>2,563.1</b>	<b>1,837.2</b>	<b>4,400.3</b>	<b>100.0%</b>	<b>2,456.2</b>	<b>1,760.6</b>	<b>4,216.8</b>	<b>100.0%</b>

Basis for estimating assets and liabilities

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

Assumptions	Local Government Pension Scheme		Discretionary Benefits	
	2017/18	2018/19	2017/18	2018/19
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men (years)	21.9	20.9	21.9	20.9
Women (years)	24.3	23.2	24.3	23.2
Longevity at 65 for future pensioners retiring in 20 years:				
Men (years)	24.0	22.6	n/a	n/a
Women (years)	26.6	25.0	n/a	n/a
Rate of CPI inflation	2.4%	2.4%	2.4%	2.5%
Rate of increase in salaries	3.9%	3.9%	n/a	n/a
Rate of increase in pensions	2.4%	2.4%	2.4%	2.5%
Rate for discounting of scheme liabilities	2.6%	2.4%	2.4%	2.2%

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

	Impact on the Defined Benefit Obligation in the Scheme		
	Change in assumption	Impact on Council Liability	Impact on Council Deficit
	£m	%	%
Longevity assumptions (increase by 1 year)	255.3	3.8%	10.2%
Pension increase assumptions (increase by 0.1%)	109.8	1.6%	4.4%
Salary increase assumption (increase by 0.1%)	10.5	0.2%	0.4%
Discount scheme liability assumptions (increase by 0.1%)	(118.2)	(1.8%)	(4.7%)



A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. The ruling may have implications for the Local Government Pension Scheme which also moved from a final salary to a career average salary scheme.

The Government Actuary's Department is currently undertaking a scheme level review for England and Wales to assess the impact on the Local Government Pension Scheme in respect of the potential impact on scheme liabilities and service cost.

Any outcome of the review may impact on future contribution rates that the Council will need to make to the pension fund.

#### Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 18 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2019 and will set contributions for the period for 1 April 2020 to 31 March 2023.

The Council made a one-off contribution of £373.2m to the scheme in 2017/18 to cover the anticipated contributions for the three year period from 1 April 2017 to 31 March 2020 on the basis of the equivalent employer's contribution rates plus additional payments to fund the pension deficit in respect of past service costs. Set out below are the contribution rates for 2019/20.

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

## Note 22

### Property, Plant and Equipment

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

#### Movements in Balances: 2018/19

	Council dwellings	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
<b>Cost or Valuation</b>									
<b>At 1 April 2018</b>	<b>2,283.8</b>	<b>2,472.6</b>	<b>176.5</b>	<b>629.6</b>	<b>62.2</b>	<b>112.2</b>	<b>196.7</b>	<b>5,933.6</b>	<b>811.9</b>
Additions	102.8	51.9	4.8	30.0	2.3	-	100.3	<b>292.1</b>	32.6
Assets reclassified between categories	16.7	76.6	1.1	1.3	(1.1)	1.4	(96.8)	<b>(0.8)</b>	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	<b>(24.1)</b>	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	76.5	(51.4)	-	-	-	166.5	(0.1)	<b>191.5</b>	(2.2)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(118.5)	-	(52.4)	-	0.3	(0.1)	<b>(170.7)</b>	(53.3)
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	<b>(109.7)</b>	(0.2)
<b>At 31 March 2019</b>	<b>2,445.0</b>	<b>2,366.0</b>	<b>162.8</b>	<b>608.5</b>	<b>63.4</b>	<b>266.2</b>	<b>200.0</b>	<b>6,111.9</b>	<b>788.8</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2018</b>	-	<b>(28.1)</b>	<b>(73.7)</b>	<b>(111.9)</b>	-	-	-	<b>(213.7)</b>	<b>(121.1)</b>
Depreciation charge	(51.7)	(59.9)	(15.9)	(26.2)	-	(0.6)	-	<b>(154.3)</b>	(32.4)
Depreciation written out to the Revaluation Reserve	-	39.9	-	-	-	0.1	-	<b>40.0</b>	2.2
Depreciation written out to the Surplus/Deficit on the Provision of Services	51.0	14.7	-	1.1	-	-	-	<b>66.8</b>	1.9
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	0.8	-	-	-	-	-	<b>0.8</b>	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	0.8	-	-	-	-	-	<b>0.8</b>	
Derecognition - Disposals	0.7	2.2	19.1	-	-	0.1	-	<b>22.1</b>	0.1
Assets reclassified (to)/from Held for Sale	-	0.5	-	-	-	0.4	-	<b>0.9</b>	
<b>At 31 March 2019</b>	-	<b>(29.1)</b>	<b>(70.5)</b>	<b>(137.0)</b>	-	-	-	<b>(236.6)</b>	<b>(149.3)</b>
<b>Net Book Value</b>									
<b>At 31 March 2019</b>	<b>2,445.0</b>	<b>2,336.9</b>	<b>92.3</b>	<b>471.5</b>	<b>63.4</b>	<b>266.2</b>	<b>200.0</b>	<b>5,875.3</b>	<b>639.5</b>
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,444.5</b>	<b>102.8</b>	<b>517.7</b>	<b>62.2</b>	<b>112.2</b>	<b>196.7</b>	<b>5,719.9</b>	<b>690.8</b>

Movements in Balances: 2017/18

	Council dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	PFI / Service Concession assets included in Property, Plant and Equipment £m
<b>Cost or Valuation</b>									
<b>At 1 April 2017</b>	<b>2,278.7</b>	<b>2,364.0</b>	<b>184.1</b>	<b>583.0</b>	<b>60.3</b>	<b>6.0</b>	<b>170.6</b>	<b>5,646.7</b>	<b>747.9</b>
Additions	94.1	33.7	5.4	39.0	1.6	-	84.3	258.1	51.3
Assets reclassified between categories	(3.2)	18.8	2.2	9.2	0.3	29.6	(57.9)	(1.0)	
Assets reclassified (to)/from Held for Sale	-	(0.8)	-	-	-	-	-	(0.8)	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(45.9)	125.7	-	-	-	103.7	-	183.5	9.1
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	11.6	-	-	-	(7.2)	(0.3)	4.1	4.4
Derecognition - Disposals	(37.9)	(80.4)	(15.2)	(1.6)	-	(19.9)	-	(155.0)	(0.8)
Derecognition - other	(2.0)	-	-	-	-	-	-	(2.0)	
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,472.6</b>	<b>176.5</b>	<b>629.6</b>	<b>62.2</b>	<b>112.2</b>	<b>196.7</b>	<b>5,933.6</b>	<b>811.9</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2017</b>	<b>(124.7)</b>	<b>(26.9)</b>	<b>(69.7)</b>	<b>(89.2)</b>	-	-	-	<b>(310.5)</b>	<b>(93.9)</b>
Depreciation charge	(50.3)	(56.3)	(18.3)	(24.4)	-	(0.2)	-	(149.5)	(30.2)
Depreciation written out to the Revaluation Reserve	173.8	34.9	-	-	-	0.5	-	209.2	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.5	-	-	-	-	-	12.5	0.8
Revaluation (losses)/reversals recognised in the Revaluation Reserve	-	2.6	-	-	-	-	-	2.6	
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-	1.5	-	-	-	-	-	1.5	
Derecognition - Disposals	1.2	3.3	14.3	1.7	-	-	-	20.5	0.2
Other movements in depreciation and impairment	-	0.3	-	-	-	(0.3)	-	-	
<b>At 31 March 2018</b>	<b>-</b>	<b>(28.1)</b>	<b>(73.7)</b>	<b>(111.9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(213.7)</b>	<b>(121.1)</b>
<b>Net Book Value</b>									
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,444.5</b>	<b>102.8</b>	<b>517.7</b>	<b>62.2</b>	<b>112.2</b>	<b>196.7</b>	<b>5,719.9</b>	<b>690.8</b>
<b>At 31 March 2017</b>	<b>2,154.0</b>	<b>2,337.1</b>	<b>114.4</b>	<b>493.8</b>	<b>60.3</b>	<b>6.0</b>	<b>170.6</b>	<b>5,336.2</b>	<b>654.0</b>

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## Revaluations

### Operational (other than Housing)

The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Azmat Mir, Member of the Royal Institution of Chartered Surveyors (MRICS), Head of Property Consultancy and other similarly qualified staff within the Council's Property Services section carried out the valuations. A Valuation Certificate was issued on 24 May 2019 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The effective date of the current year's valuation was 1 April 2018, with a review of any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been little movement in building costs during the year to 31 March 2019.

A review was undertaken to assess the impact of the movement in building costs on the value of those assets not subject to revaluation in 2018/19. As a result, a desktop exercise was undertaken to update those values in the Balance Sheet, reflecting a more up to date value as at 31 March 2019, resulting in a small reduction in relevant asset values.

### Housing

The Council's housing stock was valued as at 1 April 2018 by Azmat Mir MRICS, and similarly qualified staff within the Council's Property Services section in line with the Ministry of Housing, Communities and Local Government's Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value – Social Housing basis, which takes open market value for the underlying dwellings and applies a multiplier to reflect the reduced value as a result of the use for social housing for 2018/19 of 40% (2017/18: 40%). A review was undertaken to assess any material movement in the valuation from 1 April 2018 to 31 March 2019, and the valuation updated accordingly.

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

### Infrastructure and Community Assets

Infrastructure assets are carried at Depreciated Historical Cost, with the amount of outstanding debt as at 31 March 1994, when a new system of capital accounting was introduced, used as a proxy for the opening balance of historical cost with adjustments for subsequent capital expenditure and depreciation. The carrying value of Infrastructure Assets has been reduced in light of the current information regarding evidence of investment in the highways network. Community Assets are valued at Historical Cost.

### Surplus Assets

A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2019 at fair value, assessing the assets in their highest and best use, using Level 2 inputs.

Recurring Fair Value Measurements	Input Level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2018 Fair Value £m	31 March 2019 Fair Value £m
Highest and Best Use	Level 2	The fair value of surplus properties has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Property Portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as Level 2 on the fair value hierarchy.	112.2	266.2

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

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m
Carried at Historical Cost					63.4		200.0	263.4
Carried at Depreciated Historical Cost			112.4	608.5				720.9
Valued at current value as at:								
31 March 2019	2,445.0	1513.0				266.2		4,224.2
31 March 2018		161.3						161.3
31 March 2017		234.3						234.3
31 March 2016		254.9						254.9
31 March 2015		202.5	50.4					252.9
<b>Total cost or valuation</b>	<b>2,445.0</b>	<b>2,366.0</b>	<b>162.8</b>	<b>608.5</b>	<b>63.4</b>	<b>266.2</b>	<b>200.0</b>	<b>6,111.9</b>

## Capital Commitments

At 31 March 2019, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years budgeted to cost £1,098.2m (31 March 2018: £1,001.1m). The major commitments are:

	£m
PFI Lifecycle Costs	557.9
HRA New Build & Investment	92.5
Tame Valley Phase 3	87.5
Curzon Promenade/Paternoster/Square	57.9
Paradise Circus Enterprise Zone	50.5
Revenue Reform Projects	32.5
Additional School Places	31.6
Digbeth High Street Public Realm	31.5
A457 Dudley Road	28.9
Enterprise Zone Capitalised Interest	22.3
Birmingham Cycle Routes	12.0
Clean Air Hydro Bus	11.0
Iron Lane Highway Improvements	10.3
Selly Oak New Road Phase 1b	7.3
Snow Hill Public Realm	7.1
Business Growth Programme	6.2
Unlocking Housing Sites	5.6
Other Projects <£5m	45.6
<b>Total Capital Commitments</b>	<b>1,098.2</b>

## Capitalisation of Borrowing Costs

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

	£m
Enterprise Zone	2.9
Wholesale Market	0.1

## Note 23

### 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
<b>01 April 2017</b>						
- At Cost	3.9	11.1	0.5	-	-	15.5
- At Valuation	215.8	-	-	18.4	1.8	236.0
Additions	0.1	-	-	-	-	0.1
<b>31 March 2018</b>	<b>219.8</b>	<b>11.1</b>	<b>0.5</b>	<b>18.4</b>	<b>1.8</b>	<b>251.6</b>
- At Cost	3.9	11.1	0.5	-	-	15.5
- At Valuation	215.9	-	-	18.4	1.8	236.1
<b>31 March 2018</b>	<b>219.8</b>	<b>11.1</b>	<b>0.5</b>	<b>18.4</b>	<b>1.8</b>	<b>251.6</b>
<b>01 April 2018</b>						
- 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)
<b>31 March 2019</b>	<b>218.0</b>	<b>11.1</b>	<b>0.5</b>	<b>18.4</b>	<b>1.8</b>	<b>249.8</b>
- At Cost	1.8	11.1	0.5	-	-	13.4
- At Valuation	216.2	-	-	18.4	1.8	236.4
<b>31 March 2019</b>	<b>218.0</b>	<b>11.1</b>	<b>0.5</b>	<b>18.4</b>	<b>1.8</b>	<b>249.8</b>

### Museum Collections

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

## **Historic Buildings and the Historical Environment**

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

## **Public Art**

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

## **Libraries and Archive Collections**

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

## **Civic Regalia and Plate**

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

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

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

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



## Note 24

### Intangible Assets

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

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

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

	2017/18			2018/19		
	Internally Generated Assets £m	Other Assets £m	Total £m	Internally Generated Assets £m	Other Assets £m	Total £m
Balance at start of year:						
- Gross carrying amounts	-	43.3	43.3	-	41.4	41.4
- Accumulated amortisation	-	(23.6)	(23.6)	-	(27.7)	(27.7)
<b>Net carrying amount at start of year</b>	<b>-</b>	<b>19.7</b>	<b>19.7</b>	<b>-</b>	<b>13.7</b>	<b>13.7</b>
Additions:						
- Internal development	-	1.0	1.0	-	1.1	1.1
- Purchases	-	-	-	-	-	-
Assets reclassified between asset categories	-	1.0	1.0	-	0.8	0.8
Other disposals	-	(3.9)	(3.9)	-	(1.2)	(1.2)
Revaluations increases or decreases	-	-	-	-	-	-
Amortisation for the period	-	(8.0)	(8.0)	-	(8.2)	(8.2)
Amortisation written out for disposals/transfers	-	3.9	3.9	-	1.2	1.2
Other changes	-	-	-	-	-	-
Net carrying amount at end of year	-	13.7	13.7	-	7.4	7.4
Comprising:						
Gross carrying amounts	-	41.4	41.4	-	42.1	42.1
Accumulated amortisation	-	(27.7)	(27.7)	-	(34.7)	(34.7)
	-	13.7	13.7	-	7.4	7.4

**Note 25****Long Term Investments**

Details of the Council's long term investments are summarised below. The detail for 31 March 2018 has been restated to align with the new definitions for investments following the implementation of IFRS9, Financial Instruments. The total of investments has not changed.

31 March 2018		31 March 2019
£m		£m
37.9	Investment in Subsidiary and Associated Companies	37.3
3.8	Equity Investment in non-Group Companies	3.9
<b>41.7</b>	<b>Total</b>	<b>41.2</b>

**Note 26****Long Term Debtors**

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

31 March 2018		31 March 2019
£m		£m
88.8	External Loans	83.8
1.0	Employee Loans	0.7
0.3	Mortgages: former Council House Tenants	0.3
36.1	Other Debtors	30.6
<b>126.2</b>	<b>Total</b>	<b>115.4</b>

**Note 27****Short Term Investments**

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below.

31 March 2018		31 March 2019
£m		£m
60.0	Money Market Funds	66.1
12.6	Financial Institutions	-
-	Other Investments	-
<b>72.6</b>	<b>Total</b>	<b>66.1</b>

**Note 28****Assets Held for Sale**

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

	Current	
	2017/18	2018/19
	£m	£m
<b>Balance outstanding at start of year</b>	<b>6.6</b>	<b>0.9</b>
Assets newly classified as held for sale:		
- Property, Plant and Equipment	0.8	23.2
Assets sold	(6.5)	(0.7)
<b>Balance outstanding at year end</b>	<b>0.9</b>	<b>23.4</b>

In 2018/19, 19 assets have been reclassified as held for sale, with disposal expected in 2019/20.

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

**Note 29****Short Term Debtors**

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

31 March 2018		31 March 2019
£m		£m
78.4	Central government bodies	68.6
12.0	Other local authorities	21.2
6.0	NHS bodies	8.3
3.2	Public corporations and trading funds	2.5
229.8	Other entities and individuals	230.0
<b>329.4</b>	<b>Total</b>	<b>330.6</b>

**Note 30****Cash and Cash Equivalents**

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

31 March 2018		31 March 2019
£m		£m
3.3	Cash held by the Council	3.1
52.2	Bank current accounts	46.7
(35.4)	Bank Overdrafts	(15.2)
<b>20.1</b>	<b>Total</b>	<b>34.6</b>

**Note 31****Short Term Creditors**

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

31 March 2018		31 March 2019
£m		£m
(28.6)	Central government bodies	(26.2)
(11.3)	Other local authorities	(6.7)
(2.0)	NHS bodies	(1.3)
(63.7)	Public corporations and trading funds	(64.1)
(228.1)	Other entities and individuals	(197.6)
<b>(333.7)</b>	<b>Total</b>	<b>(295.9)</b>

## Note 32

### Provisions

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

Balance at 1 April 2017		Balance at 1 April 2018	Additional provisions made in 2018/19	Amounts used in 2018/19	Transfer between current and non-current provision	Unused amounts reversed in 2018/19	Unwinding of discounting in 2018/19	Balance at 31 March 2019
£m		£m	£m	£m	£m	£m	£m	£m
<b>Short Term</b>								
145.2	Equal Pay	151.8	110.5	(87.8)	-	-	-	174.5
16.8	Business Rates							
	Appeals	22.8	11.1	(12.4)	-	(7.8)	-	13.7
3.5	Pension							
	Guarantees	1.6	-	(1.5)	1.3	-	-	1.4
7.5	Other Provisions	11.9	6.2	(2.3)	-	-	-	15.8
<b>173.0</b>	<b>Total</b>	<b>188.1</b>	<b>127.8</b>	<b>(104.0)</b>	<b>1.3</b>	<b>(7.8)</b>	<b>-</b>	<b>205.4</b>
<b>Long Term</b>								
-	Equal Pay	-	-	-	-	-	-	-
	Business Rates							
9.0	Appeals	12.3	6.0	(6.7)	-	(4.2)	-	7.4
	Pension							
21.0	Guarantees	11.2	-	-	(1.3)	(0.9)	(0.5)	8.5
-	Other Provisions	-	-	-	-	-	-	-
<b>30.0</b>	<b>Total</b>	<b>23.5</b>	<b>6.0</b>	<b>(6.7)</b>	<b>(1.3)</b>	<b>(5.1)</b>	<b>(0.5)</b>	<b>15.9</b>

### 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 £174.5m (2017/18: £151.8m) in respect of outstanding claims as at 28 February 2019. 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 Housing Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with issued and valid equal pay claims. The Council has included both the capital and revenue impacts of equal pay claims in its long term financial plan, Council Financial Plan 2019 - 2023

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### Business Rates Appeals

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

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. From 1 April 2017 the Council became part of a 100% Local Business Rates Retention Pilot. Under the pilot the Council retains 99% of the Business Rates it collects including 99% of any amounts due to be collected in future. The other 1% is retained by the West Midlands Fire and Rescue Authority (WMFRA). Under the pilot, therefore, the Council is responsible to pay for 99% of backdated appeals.

Prior to 1 April 2017 the Council's share was 49% with 1% due to the WMFRA and the other 50% being due to Central Government.

These accounts include a provision of £21.1m representing 99% of the total provision (2017/18: £35.1m) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2019. The remaining 1% share of the liability is attributable to the WMFRA.

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

### Pensions Guarantees

The Council has, over a number of years, changed its way of operating from being one of a direct provider of a number of services to one where it purchases services from third parties. As part of this change in service delivery model, the Council has transferred staff from the Council to external providers under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). The Council has agreed that staff transferring to an external provider should continue to have the right to access equivalent pension benefits to that provided whilst employed by the Council. To ensure the smooth transfer of staff, the Council has provided guarantees for contribution rates and pension deficits in respect of continuing pension provision. As a result of the guarantees given, the Council has set aside a provision of £9.9m (2017/18: £12.8m) to meet future liabilities under these arrangements.

### Other Provisions

Details of the major items included in other provisions are:

#### Subsidiaries

As part of the relationship with its subsidiary companies, the Council may have to provide a guarantee that it will support a company to enable it to continue meeting its liabilities as they fall due. The Council continues to review the likelihood of any call on the guarantees that it has given to determine whether it needs to set aside resources to meet any future liabilities. The Council has set aside a provision of £8.7m in 2018/19 (2017/18: £6.7m).

## Equal Pay Legal Costs

The Council has set aside a provision for legal costs associated with the handling or defending of Equal Pay claims. The provision will be used when legal fees are agreed for each case and may be subject to assessment; the timing of which is uncertain. It is anticipated that this provision will be utilised fully by 31 March 2020.

## Sleep-In Allowance

The Council, like other care providers/commissioners, has a risk of potential back pay liability as a result of developments in the legal system in relation to sleep-in shifts. The *Mencap vs Tomlinson-Blake* Employment Appeal Tribunal ruling found that care providers must pay the National Minimum Wage throughout a sleep-in shift rather than the fixed allowance that is currently paid. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex, and currently subject to appeal. The Council has set aside a provision in its 2018/19 accounts of £1.1m in respect of potential payments relating to sleep-in allowances.

## The Carbon Reduction Commitment

In 2019/20 the Council will have to purchase allowances as a result of mandatory participation in the Government's Carbon Reduction Commitment Energy Efficiency scheme (CRCEES). The quantity of allowances that will be purchased is dependent on the amount of energy used in properties that the Council occupied in 2018/19. In line with the recommended treatment by CIPFA, a provision of £0.7m has been made in the 2018/19 accounts based on the estimated energy consumed in 2018/19.

## Waste Management Settlement

Following the decision of Cabinet on 15 March 2019 in relation to the Waste Management employees pay claim, a provision of £1.8m has been made in the 2018/19 accounts based on the estimated cost of the settlement.

## Note 33

### Contingent Liabilities and Contingent Assets

#### Contingent Liabilities

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

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

#### Direct

For arrangements managed under its control, the accountable body function covers projects and programmes where the Council accesses European or Domestic grant support either for itself or on behalf of another organisation. In accepting this role the Council underwrites the financial performance and delivery of the activity along with

compliance with the funding regulations. Under this role there is, depending on the nature of the particular scheme, a potential liability to the Council arising from either non-delivery of outputs, claiming of ineligible expenditure or from the disposal of assets prior to any clawback liability expiring. The Council has quantified this potential liability at 31 March 2019 as £440.5m and has identified future commitments of £20.7m.

#### Partnerships

Where the Council has accepted the accountable body role for grant funding, which involves a wider partnership arrangement and management of the fund, for example Local Enterprise Partnership (LEP) or the Regional Growth Fund (RGF), the Council's grant liability exists if it is deemed that it has been "unreasonable" in discharging its responsibilities. The Council has quantified this potential liability at 31 March 2019 as £571.7m and has identified future expenditure commitments of £481.2m.

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

2. The Council's final Housing Benefit claim for 2018/19 is still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and reduce the General Fund balance carried forward.
3. Under the Equality Act 2010, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equality Act and, as a result, has set aside a provision of £174.5m (31 March 2018: £151.8m) which incorporates all claims received and negotiations agreed to 28 February 2019.

Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are uncertainties surrounding the volume and timing of any future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in the Financial Plan 2019 – 2023 which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated between 1 April 2013 and 31 March 2020 to meet the costs of equal pay.

4. The Council is facing a number of compensation claims from former employees for employment related and current health issues, from people who attended Council schools and from other service users. Currently the validity of any outstanding claims is being assessed.
5. The Council uses a number of different arrangements in the delivery of services in addition to the services it provides itself. Alternative methods of service delivery may include the use of subsidiary companies where the Council has majority control or partnership arrangements with third parties through associate companies and joint ventures where the Council has joint control or a significant influence. To ensure continuity of service delivery, the Council may provide guarantees or letters of assurance to these companies so that they can give assurance to third party suppliers that they can continue to meet their liabilities as they fall due. The Council



has set aside a provision of £8.7m in 2018/19 in recognition of its current commitments under these arrangements. The trading position of companies may change and the Council may be required to provide for further support in the future.

6. The Council enters into a number of arrangements with external partners for the delivery of services or as part of infrastructure developments within the city. There are occasions where the Council faces claims from external partners where it is believed that specific outcomes have not been delivered. Currently the validity of any outstanding claims is being assessed.
7. Across the country NHS Trusts have submitted applications, under Section 47 of the Local Government Finance Act 1988, to re-classify their Business Rates assessments as charitable and therefore claim mandatory charitable relief, equivalent to an 80% reduction in the amount payable. The NHS Trusts are also seeking repayment of Business Rates paid over the last six years. All affected local authorities have rejected these applications, following legal advice organised through the Local Government Association, and the issue will now be determined by the Courts, with a provisional listing date of November 2019. Should the NHS Trust applications be successful there would be a significant impact to the Council, in excess of £10m per annum.
8. The Council received insurance services from Municipal Mutual Insurance (MMI). Due to financial difficulties, MMI ceased trading in October 1993 and entered into a solvent run off. MMI entered into a Scheme of Arrangement with its creditors, namely the Councils which were owed claim settlements. The Scheme of Arrangement stated that MMI would be able to claw back any claim settlements paid on behalf of its creditors after 1 October 1993 if a solvent run off was not likely to be achieved.

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

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

9. In the delivery of services, the Council may transfer staff to external organisations rather than directly deliver those services itself. As part of the staff transfer arrangements, continued access to the Local Government Pension Scheme may still be permitted. Where these arrangements exist, the Council has given guarantees in respect of pension liabilities to the West Midlands Pension Fund and to companies in respect of contribution rates. Where the Council has an expectation that there will be a call on the guarantee, provision has been made as detailed in Note 32. At present the Council has set aside a provision of £9.9m in respect of its guarantees. However, there may be further calls on guarantees which will need to be considered in the future.
10. The Council, as with other care providers/commissioners, has a risk of potential back pay liability as a result of outcomes from Employment Tribunals in relation to sleep-in shifts. In the Employment Appeal Tribunal of *Mencap vs Tomlinson-Blake*, the judgement was that care providers must pay the National Minimum Wage throughout

a sleep-in shift rather than a fixed allowance as is currently the case. However, the Court of Appeal Judgement overturned that decision by deciding that the minimum wage does not have to be paid for all sleeping hours, only for those who undertake actual work rather than those who are simply available for work. The current case law is complex and is subject to appeal.

### Contingent Assets

At 31 March 2019 the Council has identified the following material contingent assets.

1. The Council undertakes robust contract management of its major contracts to ensure that services are delivered and paid for in line with the terms and conditions of each contract. Where there is evidence of performance below the standard required or non-delivery of elements of a contract, redress is sought from the contractor including redress through the courts where it is appropriate. Where there continues to be poor performance the Council may take further action to ensure that services can continue to be delivered to the quality stipulated. The Council is currently in discussions with Amey Birmingham Highways Ltd and its subcontractor Amey LG Ltd regarding the delivery of the Highways Management and Maintenance Private Finance Initiative scheme. Given the current status of discussions and their commercial sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.
2. HM Revenue and Customs has accepted that local authority leisure services are eligible for VAT Exemption. The Council has submitted a claim for the refund of VAT paid in respect of leisure services income dating back to April 2007. Should the claim be accepted, the Council expects to receive about £4m.
3. When disposing of non-current assets which may be the subject of further development by the purchaser, the Council may include clauses within the disposal agreement that require the purchaser to make additional payments to the Council depending on the outcome of the development. The Council has included such clauses in the agreement for the disposal of a number of developments and anticipates generating additional capital receipts in future years.

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

### Note 34 Council Borrowing

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

2017/18			2018/19	
Long Term £m	Short Term £m		Long Term £m	Short Term £m
0.4	163.9	Lender's Option Borrower's Option (LOBO) loans	60.4	42.6
483.0	7.3	Local Bonds	476.3	7.6
2,200.9	75.8	Public Works Loan Board	2,311.0	66.3
55.7	552.8	Other Borrowing (mainly Other Local Authorities)	7.8	466.6
<b>2,740.0</b>	<b>799.8</b>	<b>Total</b>	<b>2,855.5</b>	<b>583.1</b>

### Note 35 Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2017/18			2018/19
£m			£m
(12.9)	Interest received		(21.6)
179.2	Interest paid		182.0
(6.1)	Dividends received		(5.7)
<b>160.2</b>			<b>154.7</b>

### Note 36 Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

2017/18			2018/19
£m			£m
(256.3)	Purchase of property, plant and equipment, investment property and intangible assets		(261.9)
(1,643.4)	Purchase of short-term and long-term investments		(1,112.4)
128.0	Proceeds from the sale of property, plant and equipment, investment property and intangible assets		87.4
1,604.4	Proceeds from short-term and long-term investments		1,152.9
0.4	Other receipts from investing activities		-
<b>(166.9)</b>	<b>Net cash flows from investing activities</b>		<b>(134.0)</b>

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

The cash flows from financing activities include the following:

2017/18		2018/19
£m		£m
95.5	Other receipts from financing activities	126.5
1,558.6	Cash receipts of short-term and long-term borrowing	2,171.8
(46.0)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(47.3)
(1,271.4)	Repayments of short-term and long-term borrowing	(2,272.6)
-	Other payments for financing activities	(4.9)
<b>336.7</b>	<b>Net cash flows from financing activities</b>	<b>(26.5)</b>

**Note 38****Cash Flow Statement – Other Adjustments**

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

2017/18		2018/19
£m		£m
149.5	Depreciation/Impairment charge	154.3
8.0	Amortisation of Intangible Assets	8.2
17.6	Derecognition of Available for Sale Assets	0.5
(19.7)	Revaluation of Non-Current Assets	103.9
143.1	Derecognition of Non-Current Assets	88.3
(86.7)	(Increase)/Decrease in Debtors	(24.3)
(26.2)	Increase/(Decrease) in Creditors	(39.2)
-	(Increase)/Decrease in Inventories	(0.1)
8.6	Increase/(Decrease) in Provisions	9.7
(129.7)	Pensions Liability	102.9
<b>64.5</b>	<b>Net Cash Flow - Other Adjustments</b>	<b>404.2</b>

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

2017/18		2018/19
£m		£m
(95.5)	Capital Grants	(126.5)
(128.6)	Capital Receipts	(87.4)
-	Council Tax and Business Rates Adjustments	4.9
<b>(224.1)</b>		<b>(209.0)</b>

## Note 39

### Financial Instruments

#### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2018	31 March 2019	31 March 2018	31 March 2019
	£m	£m	£m	£m
<b><u>Investments</u></b>				
Fair Value through Profit or Loss	41.7	41.2	-	-
Fair Value at Amortised Cost	-	-	72.6	66.2
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Fair Value through Other Comprehensive Income - other	-	-	-	-
<b>Total</b>	<b>41.7</b>	<b>41.2</b>	<b>72.6</b>	<b>66.2</b>
<i>Investments that are not financial instruments</i>	-	-	-	-
<b>Total investments</b>	<b>41.7</b>	<b>41.2</b>	<b>72.6</b>	<b>66.2</b>
<b><u>Debtors</u></b>				
Fair Value through Profit or Loss	-	-	-	-
Fair Value at Amortised Cost	88.9	88.8	221.4	216.5
Fair Value through Other Comprehensive Income - designated equity instruments	-	-	-	-
Financial assets carried at contract amounts	-	-	-	-
<b>Total</b>	<b>88.9</b>	<b>88.8</b>	<b>221.4</b>	<b>216.5</b>
<i>Debtors that are not financial instruments</i>	37.3	26.6	108.0	114.2
<b>Total debtors</b>	<b>126.2</b>	<b>115.4</b>	<b>329.4</b>	<b>330.7</b>
<b><u>Cash</u></b>				
Cash in Hand			55.5	37.2
<b>Total cash: asset</b>			<b>55.5</b>	<b>37.2</b>
Cash Overdrawn			(35.4)	(15.2)
<b>Total cash: liability</b>			<b>(35.4)</b>	<b>(15.2)</b>
<b><u>Borrowings</u></b>				
Fair Value through Profit or Loss	-	-	-	-
Fair Value at Amortised Cost	(2,740.0)	(2,855.5)	(799.8)	(583.1)
<b>Total</b>	<b>(2,740.0)</b>	<b>(2,855.5)</b>	<b>(799.8)</b>	<b>(583.1)</b>
<i>Borrowings that are not financial instruments</i>	-	-	-	-
<b>Total borrowings</b>	<b>(2,740.0)</b>	<b>(2,855.5)</b>	<b>(799.8)</b>	<b>(583.1)</b>
<b><u>Other Long Term Liabilities</u></b>				
PFI and finance lease liabilities	(405.6)	(393.4)		
<b>Total</b>	<b>(405.6)</b>	<b>(393.4)</b>		
<i>Transferred Debt</i>	(56.4)	(51.0)		
<b>Total long term liabilities</b>	<b>(462.0)</b>	<b>(444.4)</b>		
<b><u>Creditors</u></b>				
Fair Value through Profit or Loss	-	-	-	-
Fair Value at Amortised Cost	(1.5)	(2.3)	(241.8)	(217.7)
<b>Total</b>	<b>(1.5)</b>	<b>(2.3)</b>	<b>(241.8)</b>	<b>(217.7)</b>
<i>Creditors that are not financial instruments</i>	-	-	(91.9)	(78.3)
<b>Total creditors</b>	<b>(1.5)</b>	<b>(2.3)</b>	<b>(333.7)</b>	<b>(296.0)</b>

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £17.3m, paying a fixed interest rate of 5%. During the development phase of the project, interest was rolled up in the loan. In 2016/17, Warwickshire County Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. Interest payments have resumed and a bullet principal payment is due in March 2020. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

West Midlands Growth Company (formerly Marketing Birmingham) received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.4m, pays an interest rate of 2.2% and matures in 2022.

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

	2017/18 £m	2018/19 £m
<b>Opening balance at 1 April</b>	<b>17.8</b>	<b>17.9</b>
Adjustment to Opening Balance		(0.5)
Loans repaid	(0.1)	(0.1)
Movement in Expected Credit Loss per IFRS9		0.1
(Increase)/Reduction in discount	0.2	0.3
<b>Closing Balance at 31 March</b>	<b>17.9</b>	<b>17.7</b>
Nominal value at 31 March	22.3	22.2

## Valuation Assumptions

The interest rate at which the fair value of soft loans has been made at recognition is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

The Opening Balance Adjustment on the loans is as a result of the implementation of IFRS9, Financial Instruments, and the requirement to determine Expected Credit Losses on financial assets. The Expected Credit Losses estimate has reduced during the year as repayments have been made.

Income, Expenses, Gains and Losses

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

	2017/18		2018/19	
	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus/Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£m	£m	£m	£m
<b>Net (Gains)/Losses on financial instruments:</b>				
• financial assets measured at fair value through profit/loss		0.8	2.7	
• financial assets measured at amortised costs			17.1	
<b>Total Net (Gains)/Losses on financial instruments</b>	<b>-</b>	<b>0.8</b>	<b>19.8</b>	<b>-</b>
<b>Income/Expenditure in (Surplus)/Deficit on the Provision of Services</b>				
Interest Receivable from financial assets measured at amortised costs	(12.9)	-	(21.6)	-
Interest Receivable from financial assets measured through profit and loss	(6.1)	-	(5.7)	-
Interest Expense	179.2	-	182.0	-
<b>Net Income/Expenditure in (Surplus)/Deficit on the Provision of Services</b>	<b>160.2</b>	<b>-</b>	<b>154.7</b>	<b>-</b>
<b>Net (gain)/loss for the year</b>	<b>160.2</b>	<b>0.8</b>	<b>174.5</b>	<b>-</b>

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### Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the following assumptions in the tables below. The fair value calculations for financial liabilities and assets are as follows:



Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Bonds	Level 1	Quoted prices (unadjusted) in active markets for identical assets	85.6	109.1	84.5	103.1
Public Works Loan Board (PWLB)	Level 2	PWLB new loan at certainty rate based on published PWLB rates	2,276.8	3,069.2	2,377.2	3,130.7
Bonds		An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	404.7	511.4	399.4	507.9
Other Market Loans - LOBOs			164.3	297.1	102.9	190.6
Other Long Term Loans			14.1	14.4	11.7	11.6
Other Long Term Loans - Local Authorities		Market indicative interest rates	45.3	44.9	45.0	45.2
Other Long Term Liabilities (PFI/ leasing)		PWLB new loan at certainty rate based on published PWLB rates	417.9	679.4	405.0	661.4
Other Long Term Liabilities (Transferred Debt)*		An estimate of the rate payable for a new loan on the same terms	44.1	51.0	39.4	49.9
Other Market Loans - Short Term	N/A	Fair value is approximated at their carrying amount	549.0	549.0	417.8	417.8
Short term creditors (including PFI/finance leases/operating lease/transferred debt)	N/A	Fair value is approximated at their carrying amount	241.8	241.8	236.1	236.1
<b>TOTAL</b>			<b>4,243.6</b>	<b>5,567.3</b>	<b>4,119.0</b>	<b>5,354.3</b>

\*The Transferred Debt information is provided by Dudley Metropolitan Borough Council, who have responsibility for the West Midlands County Council Debt Administration Fund. The fair values were provided to them by their Treasury Advisors.

The fair market value of some of the Council's bonds has been set through Bloomberg. These assets are considered to have readily observable prices and therefore a reliable, fair market value.

Financial Assets	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Fair value through profit and loss assets	Level 2	With significant unobservable inputs	-	-	5.9	5.9
Available-for-sale financial assets	Level 3	Based on company performance	5.8	5.8	-	-
Unquoted equity investment at cost	Level 2	Valued at cost until reliable fair value can be established	0.1	0.1	-	-
Long term debtors (Loans and receivables)	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published PWLB rates	88.9	89.1	84.8	81.4
Investments (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	88.6	88.6	79.0	79.0
Short term debtors (Loans and receivables)	N/A	Fair value is approximated at their carrying amount	14.6	14.6	5.0	5.0
Financial assets carried at contract amounts	N/A	Fair value is approximated at their carrying amount	206.8	206.8	230.6	230.6
<b>TOTAL</b>			<b>404.8</b>	<b>405.0</b>	<b>405.3</b>	<b>401.9</b>

The fair value of the liabilities and assets at 31 March 2019 is higher than the carrying amount because the Council's portfolio of loans and investments includes fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss on liabilities (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates and a gain on assets (based on economic conditions at 31 March 2019) attributable to the commitment to receive interest below current market rates.

### PWLB Loans

The fair value of Public Works Loan Board (PWLB) loans of £3,130.7m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing borrowing rates from the PWLB.

**Note 40****Nature and Extent of Risks Arising from Financial Instruments**

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

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

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

**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:

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

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

This risk is minimised through the Treasury Management Policy, which requires that deposits are not made with financial institutions unless they meet minimum credit ratings

from the three major credit ratings agencies. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each rating category and country. The Treasury Management Policy is contained within the Council's approved Financial Plan.

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

- Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years.
- Corporate Bonds, Certificates of Deposit (CD) or Commercial Paper (CP) with a maturity of less than three years, subject to a long term credit rating of not less than AA (in addition to the restrictions in the table above). CD or CP shall not exceed 20% of long-term investments (i.e. those maturing in one year or more).

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

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

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there was no evidence at 31 March 2019 that this was likely to crystallise.

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

#### Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loan Board (PWLb) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

	31 March 2018	31 March 2019
	£m	£m
Less than 1 year	(1,168.9)	(686.3)
Between 1 and 2 years	(105.7)	(123.3)
Between 2 and 5 years	(204.8)	(136.3)
Between 5 and 20 years	(1,464.4)	(1,677.1)
Between 20 and 40 years	(1,188.6)	(1,232.1)
Over 40 years	(240.0)	(191.4)
<b>Total</b>	<b>(4,372.4)</b>	<b>(4,046.5)</b>

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

Market Risk*Interest rate risk*

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

The Council is exposed to changes in interest rates as a result of its borrowings being at long-term fixed rates and investment being short-term or at variable rates of interest. Consequently, falls in interest rates will have an adverse impact on the Council's finances.

For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities for borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

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

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

At 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£m
Increase in interest payable on variable rate borrowings	4.2
Increase in interest receivable on variable rate investments	(0.8)
Impact on Surplus/(Deficit) on the Provision of Services	3.4
Share of overall impact charged to the HRA	0.9
Decrease in fair value of fixed rate investment assets	2.1
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure)	(512.8)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2019.

*Price Risk*

The Council's holdings of shares are all unquoted shares held primarily to support service objectives rather than as financial investments. The financial value of these shares will vary according to general market conditions and the particular circumstances of the share issuers. Active prices for these investments are not available. Any temporary fluctuations in the market value of such investments would have no significant impact on the Council's finances.

**Note 41****Capital Expenditure and Capital Financing**

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

	31 March 2018	31 March 2019
	£m	£m
<b>Opening Capital Financing Requirement</b>	<b>4,568.7</b>	<b>4,670.6</b>
<u>Capital Investment</u>		
Property, Plant and Equipment	257.1	291.3
Heritage Assets	0.1	0.1
Intangible Assets	2.0	1.9
Revenue Expenditure funded from Capital under Statute	42.6	45.0
Secretary of State Direction - Flexible use of Capital Receipts	17.5	14.5
Capital Grant Repayment	0.1	0.2
Long Term Loans	45.9	20.8
Increase in Share Equity	26.7	2.3
<u>Sources of Finance</u>		
Capital Receipts	(49.2)	(57.8)
Government Grants and other Contributions	(95.7)	(142.5)
Sums set aside from Revenue:		
- Direct Revenue Contributions	(7.1)	(13.5)
- Use of Major Repairs Reserve	(60.7)	(55.4)
- Revenue Provision for Debt Redemption	(67.1)	(175.2)
- Capital Receipts set aside for debt redemption	(10.3)	(53.1)
<b>Closing Capital Financing Requirement</b>	<b>4,670.6</b>	<b>4,549.2</b>
<b>Explanation of Movements in Year</b>		
Movement in underlying need to borrow	73.1	(151.8)
Assets acquired under finance leases	0.9	0.6
Assets acquired under PFI contracts	27.9	29.8
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>101.9</b>	<b>(121.4)</b>
<b>Movement in Year</b>	<b>101.9</b>	<b>(121.4)</b>

**Note:**

The Secretary of State direction relates to the permission given to local authorities to use capital receipts generated between 1 April 2016 and 31 March 2019 to finance the revenue costs of transformation that deliver savings to the public sector.

## Note 42

### Leases

The Council has a significant number of leases, as summarised below.

#### Council as the lessee

##### Finance leases

The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried in the Balance Sheet at the following net amounts.

31 March 2018 £m		31 March 2019 £m
19.6	Other Land and Buildings	19.3
2.7	Vehicles, Plant Furniture & Equipment	2.3
<b>22.3</b>	<b>Total</b>	<b>21.6</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

31 March 2018 £m		31 March 2019 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.9	- current (not later than 1 year)	0.8
1.3	- non-current (later than 1 year)	0.9
1.7	Finance costs payable in future years	1.5
<b>3.9</b>	<b>Minimum Lease Payments</b>	<b>3.2</b>

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than 1 year	1.1	0.9	0.9	0.8
Later than 1 year and not later than 5 years	1.4	1.0	1.2	0.8
Later than 5 years	1.4	1.3	0.1	0.1
<b>Total</b>	<b>3.9</b>	<b>3.2</b>	<b>2.2</b>	<b>1.7</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 contingent rents of £nil were payable (2017/18: £0.1m).

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

**Operating leases**

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

31 March 2018 £m		31 March 2019 £m
0.5	Not later than 1 year	0.3
0.7	Later than 1 year and not later than 5 years	0.5
1.4	Later than 5 years	1.2
<b>2.6</b>	<b>Total</b>	<b>2.0</b>

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

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2018 £m		31 March 2019 £m
0.5	Minimum lease payments	0.4
0.1	Contingent rents	-
<b>0.6</b>	<b>Total</b>	<b>0.4</b>

**Council as the lessor****Finance leases**

The Council has leased out property to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- current (not later than 1 year)	0.2
30.9	- non-current (later than 1 year)	26.7
192.3	Unearned finance income	210.4
(29.2)	Less – Unguaranteed residual value of property	(27.7)
<b>194.0</b>	<b>Gross investment in the lease</b>	<b>209.6</b>



The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Finance Lease debtor		Minimum Lease payments	
	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than 1 year	0.2	0.2	2.1	2.0
Later than 1 year and not later than 5 years	2.0	1.8	8.7	8.4
Later than 5 years	28.7	24.9	183.2	199.2
<b>Total</b>	<b>30.9</b>	<b>26.9</b>	<b>194.0</b>	<b>209.6</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £1.5m contingent rents were receivable by the Council (2017/18 £1.3m).

### Operating leases

The Council has leased out property to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2018 £m		31 March 2019 £m
10.7	Not later than 1 year	9.7
26.9	Later than 1 year and not later than 5 years	28.1
75.7	Later than 5 years	73.8
<b>113.3</b>	<b>Total</b>	<b>111.6</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £2.5m contingent rents were receivable by the Council (2017/18 £2.7m).

### Leases - contingent rent

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

### Note 43

#### Service Concession Arrangements

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

The main terms of the material arrangements are as follows:

- Waste Disposal. The arrangement includes the management and operation of the Council's Household Recycling Centres, Waste Transfer Stations and the Waste

Incinerator. The contract began on 17 January 1994 and ended in January 2019, with payments made monthly. Prices were indexed each year from 1 April. Veolia are continuing to provide a waste disposal service on a service provision basis.

- Schools. There are four separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), four schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the Balance Sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of eight schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the Balance Sheet, the ongoing liability remains as a Council responsibility.
- Birmingham Highways Management and Maintenance arrangement. The contract provides for management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the Service Provider. The contract commenced on 7 June 2010, with a contract period of 25 years, and provides for a five year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained.

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

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

However, the Council has identified concerns regarding:

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

Disputes regarding the contract have resulted in consideration through adjudication and through the courts terminating in a decision by the Supreme Court in July 2018 refusing Amey Local Government Ltd (ALG) permission to appeal after the Council's successful appeal at the High Court in February 2018. At its meeting on 22 May 2019, Cabinet agreed that the Council should enter into negotiation to finalise a settlement agreement in respect of all disputes under the contract, which would enable a managed release and handover to a new provider together with appropriate settlement to rectify liabilities left behind by ALG.

On the basis of a transfer of responsibilities under the contract to a new provider, these financial statements have been based on a continuance of the current contract arrangements.

Payments remaining as at 31 March 2019	Interest	Repayment of liability	Payment for services	Total
	£m	£m	£m	£m
Payable in 2019/20	31.8	11.8	42.0	<b>85.6</b>
Payable within 2 to 5 years	117.5	59.8	178.5	<b>355.8</b>
Payable within 6 to 10 years	114.8	105.9	260.9	<b>481.6</b>
Payable within 11 to 15 years	65.7	143.1	300.1	<b>508.9</b>
Payable within 16 to 20 years	11.6	81.8	101.4	<b>194.8</b>
Payable within 21 to 25 years	0.1	1.9	2.9	<b>4.9</b>
<b>Total</b>	<b>341.5</b>	<b>404.3</b>	<b>885.8</b>	<b>1,631.6</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

2017/18		2018/19
£m		£m
<b>439.9</b>	<b>Liability outstanding at the start of the year</b>	<b>421.8</b>
(46.0)	Repayment of liability	(47.3)
27.9	Lifecycle and further capital expenditure	29.8
<b>421.8</b>	<b>Liability outstanding at the year end</b>	<b>404.3</b>

#### **Note 44**

##### **Members' Allowances**

Allowances paid to Members of the Council in 2018/19 totalled £2.2m (2017/18: £2.5m). These figures include Members' allowances and expenses. Further information can be found on the Council's website.

## Note 45

### Officers' Remuneration

The remuneration paid to or receivable by the Council's senior employees is detailed in the table below.

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
Dawn Baxendale, Chief Executive and Head of Paid Service <sup>(1)</sup>	2017/18	-	-	-	-	-
	2018/19	214,200	-	4,388	35,986	254,574
Clive Heaphy, Chief Finance Officer and Section 151 <sup>(2)</sup>	2017/18	41,429	-	-	-	41,429
	2018/19	172,548	-	429	-	172,977
Jonathan Tew, Assistant Chief Executive <sup>(3)</sup>	2017/18	28,441	-	-	4,351	32,792
	2018/19	114,368	-	-	19,214	133,582
Kate Charlton, City Solicitor and Monitoring Officer	2017/18	104,662	-	-	16,013	120,675
	2018/19	103,159	-	-	17,331	120,490
Jacqui Kennedy, Director, Place	2017/18	151,359	-	-	23,158	174,517
	2018/19	149,054	-	-	25,041	174,095
Rob James, Acting Director, Neighbourhoods <sup>(4)</sup>	2017/18	-	-	-	-	-
	2018/19	105,416	-	-	17,710	123,126
Waheed Nazir, Director, Inclusive Growth	2017/18	146,131	-	-	22,358	168,489
	2018/19	143,730	-	-	24,147	167,877
Dr Tim O'Neill, Director, Education and Skills <sup>(5)</sup>	2017/18	-	-	-	-	-
	2018/19	32,742	-	-	5,501	38,243
Colin Diamond OBE, Corporate Director, Children & Young People <sup>(6)</sup>	2017/18	92,960	-	-	-	92,960
	2018/19	67,728	-	-	-	67,728
Anne Ainsworth, Acting Corporate Director, Children & Young People <sup>(7)</sup>	2017/18	-	-	-	-	-
	2018/19	55,288	-	-	9,288	64,576
Professor Graeme Betts, Director, Adult Social Care <sup>(8)</sup>	2017/18	77,966	-	-	-	77,966
	2018/19	162,548	-	8,000	-	170,548
Angela Probert, Chief Operating Officer, Strategic Services <sup>(9)</sup>	2017/18	146,131	-	-	22,358	168,489
	2018/19	141,405	93,198	-	157,793	392,396

		Salary, fees and allowances	Compensation for loss of office	Expense allowances	Pension contributions	Total
		£	£	£	£	£
Paula Buckley, Acting Strategic Director, Strategic Services <sup>(10)</sup>	2017/18	-	-	-	-	-
	2018/19	88,818	-	-	14,921	103,739
Dawn Hewins, Director, Human Resources <sup>(11)</sup>	2017/18	-	-	-	-	-
	2018/19	73,253	-	-	12,307	85,560
Dr Adrian Phillips, Director of Public Health <sup>(12)</sup>	2017/18	125,128	-	-	17,993	143,121
	2018/19	17,877	-	-	2,571	20,448
Becky Pollard, Interim Director of Public Health <sup>(13)</sup>	2017/18	-	-	-	-	-
	2018/19	-	-	-	-	-
Dr Justin Varney, Director of Public Health <sup>(14)</sup>	2017/18	-	-	-	-	-
	2018/19	11,515	-	940	1,935	14,390
Neil Carney, Programme Director, Commonwealth Games 2022 <sup>(15)</sup>	2017/18	-	-	-	-	-
	2018/19	102,256	-	-	17,179	119,435

**Notes:**

- (1) Dawn Baxendale took up the role of Chief Executive and Head of Paid Service on 1 April 2018. The expense allowance relates to relocation expenses incurred.
- (2) Clive Heaphy took up the role as Chief Finance Officer and Section 151 Officer on 3 January 2018.
- (3) Jonathan Tew Executive took up the role on 2 January 2018.
- (4) Rob James took up the role on 15 June 2018
- (5) Dr Tim O'Neill took up the role on 7 January 2019
- (6) Colin Diamond CBE was initially employed as a contractor, the costs of which were £66,000 in 2017/18 and which are not included in the table above. Colin transferred to the Council payroll as an employee on 1 September 2017 and left the Council on 31 August 2018.
- (7) Anne Ainsworth was the Acting Corporate Director, Children & Young People between 1 August 2018 and 6 January 2019.
- (8) Professor Graeme Betts, Corporate Director, Adult Social Care and Health was initially employed through an agency, the costs of which were £153,738 in 2017/18 and which are not included in the table above. Graeme transferred to the Council payroll as an employee on 5 October 2017.
- (9) Angela Probert, the Chief Operating Officer, Strategic Services was Acting Chief Executive and Head of Paid Service between 1 March 2017 and 4 April 2017. Angela left the Council on 15 February 2019.

- (10) Paula Buckley has been the Acting Strategic Director, Strategic Services since 31 July 2018.
- (11) Dawn Hewins, Director, Human Resources was appointed as a senior officer from 18 July 2018.
- (12) Dr Adrian Phillips, Director of Public Health left the Council on 22 May 2018.
- (13) Becky Pollard, Interim Director of Public Health held the role between 1 July 2018 and 18 February 2019 and was employed through a third party, the costs of which were £162,060.
- (14) Dr Justin Varney, Director of Public Health took up the role on 18 February 2019
- (15) Neil Carney, Programme Director, Commonwealth Games 2022 took up the role on 29 May 2018

Coverage of statutory posts during periods of annual leave or sickness absence was by officers within the relevant teams under delegated responsibilities.

Other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. Staff within Voluntary Aided and Foundation schools are employed by the governing body of the school and have therefore been excluded from the table below.

Teaching Staff & Staff in Schools	2017/18 Other Council Employees	Total	Remuneration band	Teaching Staff & Staff in Schools	2018/19 Other Council Employees	Total
No	No	No		No	No	No
158	291	449	£50,000 - £54,999	155	163	318
107	85	192	£55,000 - £59,999	105	61	166
67	55	122	£60,000 - £64,999	61	45	106
41	48	89	£65,000 - £69,999	45	18	63
42	46	88	£70,000 - £74,999	37	29	66
16	8	24	£75,000 - £79,999	16	5	21
15	13	28	£80,000 - £84,999	13	11	24
5	12	17	£85,000 - £89,999	6	3	9
3	9	12	£90,000 - £94,999	4	6	10
6	5	11	£95,000 - £99,999	5	3	8
1	8	9	£100,000 - £104,999	2	3	5
1	3	4	£105,000 - £109,999	1	4	5
-	4	4	£110,000 - £114,999	-	2	2
-	1	1	£115,000 - £119,999	-	-	-
-	5	5	£120,000 +	-	2	2
<b>462</b>	<b>593</b>	<b>1,055</b>		<b>450</b>	<b>355</b>	<b>805</b>

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

The 'Other Council Employees' figures for 2017/8 in the above table included staff that transferred to Birmingham Children's Trust CIC on 1 April 2018. The figures for both years include those employees with planned termination payments, 38 in 2018/19 (113 in 2017/18). Excluding employees in receipt of planned termination payments, 317 employees in 2018/19 (480 in 2017/18) received remuneration of £50,000 or more.

The number of Teaching Staff and Staff in Schools reflect those staff employed by the Council and has been affected by the conversion of a number of schools to Academy Status. Academy schools are independent of the Council and their employees are therefore excluded from the 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 225 in 2018/19 (2017/18: 147).

#### **Note 46** **Exit Packages**

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies.

2017/18							2018/19						
Compulsory		Voluntary		Total		Value of individual package	Compulsory		Voluntary		Total		
No	£m	No	£m	No	£m		No	£m	No	£m	No	£m	
-	-	3	1.1	3	1.1	£000 £250+	3	0.8	-	-	3	0.8	
-	-	3	0.7	3	0.7	£200 - £250	2	0.5	2	0.4	4	0.9	
1	0.2	11	1.8	12	2.0	£150 - £200	-	-	11	1.8	11	1.8	
-	-	50	6.0	50	6.0	£100 - £150	-	-	17	2.0	17	2.0	
3	0.3	31	2.7	34	3.0	£80 - £100	3	0.3	9	0.8	12	1.1	
3	0.2	28	2.0	31	2.2	£60 - £80	1	0.1	7	0.5	8	0.6	
3	0.1	49	2.4	52	2.5	£40 - £60	7	0.4	14	0.6	21	1.0	
18	0.5	202	5.5	220	6.0	£20 - £40	21	0.5	51	1.5	72	2.0	
113	0.8	516	4.4	629	5.2	less than £20	116	0.6	245	1.7	361	2.3	
141	2.1	893	26.6	1,034	28.7	Total	153	3.2	356	9.3	509	12.5	

In addition to the costs of exit packages identified above, the Council incurred costs of £0.2m in 2018/19 (£0.2m in 2017/18) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

**Note 47****Auditor Remuneration**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Council's external auditors.

2017/18 £m		2018/19 £m
0.3	Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year	0.2
0.1	Fees payable to Grant Thornton UK LLP for the certification of grant claims and returns for the year	0.1
<b>0.4</b>	<b>Total</b>	<b>0.3</b>

**Note 48****Related Parties**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Business Rates, Housing Benefits). Grants received from Government departments are set out in Note 15. Grant receipts outstanding at 31 March 2019 are included in the balances within Note 29.

**Members**

Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2018/19 is shown in Note 44.

**Officers**

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

**School Governors**

All school governors and staff should complete the school's Register of Business Interests. This register should be kept up-to-date and be freely available for inspection by governors, staff and parents.



### **Greater Birmingham and Solihull Business Rates Pooling Arrangement**

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities including acting as intermediary between the authorities and the government in respect of top-up/tariff payments, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2018/19. The objective of the Pool has been to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

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

The funding provided to the pooled budget includes tariff payments that would otherwise have been paid to the Government. The expenditure met from the budget paid to the Council includes an element of its top-up payments that it would otherwise have received from the Government. The table below summarises the financial activity for the year.

	2017/18 £m	2018/19 £m
<b>Funding provided to the pooled budget</b>		
Birmingham City Council	-	-
Bromsgrove District Council	7.9	8.4
Cannock Chase District Council	9.3	9.9
East Staffordshire Borough Council	18.3	18.6
Lichfield District Council	11.8	12.4
Redditch Borough Council	10.4	11.0
Solihull Metropolitan Borough Council	57.8	67.3
Tamworth Borough Council	10.6	11.0
Central Government – Top-up (Residual)	2.3	-
	<b>128.4</b>	<b>138.6</b>
<b>Expenditure met from the pooled budget</b>		
Birmingham City Council	123.7	90.5
Bromsgrove District Council	0.1	0.1
Cannock Chase District Council	0.2	0.3
East Staffordshire Borough Council	0.2	0.1
Lichfield District Council	0.2	0.4
Redditch Borough Council	-	0.1
Solihull Metropolitan Borough Council	0.7	1.0
Tamworth Borough Council	0.3	0.3
GBS LEP	2.0	4.4
Safety Net Contingency	1.0	-
Central Government – Tariff	-	41.4
	<b>128.4</b>	<b>138.6</b>

The information in the table above is based on information available at the time of compiling the 2018/19 Statement of Accounts. On finalisation of the business rates income (post

audit), it is possible that there may be a change to income to be re-allocated, but this is not expected to be of a material nature overall.

Following the decision by six members of the GBS Pool to enter into Business Rates Pilots and form new and separate Business Rates Pools attached to those Pilots, outside of the current set up, the Greater Birmingham and Solihull Business Rates Pool will no longer continue with effect from 1 April 2019.

## **Other Public Bodies**

### **Pooled Budgets**

The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area, namely, Birmingham & Solihull CCG (a new CCG for 2018/19 merging Cross City CCG, Birmingham South Central CCG and Solihull CCG) and Sandwell and West Birmingham CCG. The pooled budget is responsible for the joint commissioning of services relating to Mental Health and Learning Disabilities. The objective of the pooled arrangement is to improve services for users through closer working and co-operation in the commissioning of services. The arrangements have been established pursuant to Section 75 of the NHS Act 2006 and related Regulations with the Council hosting the Learning Disability element and the combined CCGs hosting Mental Health Services provision. The table below summarises the financial activity for the year.

	2017/18		2018/19	
	£m	£m	£m	£m
Funding provided to the pooled budget				
Birmingham City Council	113.7		108.2	
Combined Clinical Commissioning Groups	174.7		174.7	
		<b>288.4</b>		<b>282.9</b>
Expenditure met from the pooled budget				
Birmingham City Council	113.7		108.2	
Combined Clinical Commissioning Groups	174.7		174.7	
		<b>288.4</b>		<b>282.9</b>
<b>Net surplus arising from the pooled budget during the year</b>		<b>-</b>		<b>-</b>

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

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

the Council receives through the BCF replaces the Section 256 transfer from the NHS that had been made in previous years.

In 2018/19 the improved Better Care Fund (iBCF) was implemented. This was introduced in two statements, the first – iBCF1 in November 2016 and the second - iBCF2 in Spring 2017. The Section 31 Grant received by local authorities, was to be included in the BCF Pool. For Birmingham this was an increase in funds of £33.8m in 2017/18 and £47.3m in 2018/19.

The Council endorsed the principle of a BCF joint pooled budget for Older Adult Social Care and Health integrated provision between the Council and local CCGs, namely Birmingham & Solihull CCG (Cross City CCG, Birmingham South Central CCG and Solihull CCG merged in 2018/19) and Sandwell and West Birmingham CCG. Joint proposals were developed during 2014/15 for implementation from 1 April 2015, which included the Council acting as host for the BCF.

In 2018/19 funding of £89.1m (2017/18: £86.5m) was earmarked for the BCF by the Department of Health via the CCGs as detailed in the table below. The Council's contribution was made up of the resources previously allocated through two capital grants, namely the Disabled Facilities Grant and the Social Care Capital Grant and iBCF.

	2017/18	2018/19
	£m	£m
Contribution to the BCF Pooled Fund		
Birmingham & Solihull CCG	-	77.7
Birmingham Cross City CCG	55.9	-
Birmingham South Central CCG	19.1	-
Sandwell and West Birmingham CCG	11.5	11.4
<b>NHS Contribution</b>	<b>86.5</b>	<b>89.1</b>
 Birmingham City Council	 11.5	 11.7
iBCF Section 31 Grant	33.8	47.3
<b>Total BCF Pooled Fund</b>	<b>131.8</b>	<b>148.1</b>

The BCF will be used to fund a number of schemes as identified in the agreed joint plan. The management arrangements for the individual projects will be dependent on the services being provided and will include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

Service Provision	Budgeted Activity		Nature of Arrangement
	2017/18 £m	2018/19 £m	
Bed Based Additional Provision	1.5	1.4	Lead Commissioning – Council
Social Care Based Additional Provision	4.9	1.6	Sole Control – Council
Reablement – Kenrick Centre	1.5	1.5	Sole Control – Council
Care Act	3.0	3.1	Lead Commissioning – Council
Carers Strategy	1.0	1.4	Joint Control
Eligibility Criteria	20.8	21.2	Sole Control – Council
CUR Implementation Team	0.1	-	Joint Control
Management of Programme	0.4	0.1	Joint Control
Community Services	45.6	47.2	Sole Control – CCGs
Reablement – Rapid Assessment, Interface and Discharge	1.7	1.7	Sole Control – CCGs
Planned Community/Intermediate Care	-	0.1	
Dementia	2.6	2.6	Sole Control – CCGs
Assertive Outreach	0.2	0.3	Sole Control – CCGs
Equipment Contracts	4.7	4.5	Lead Commissioning – Council
Disabled Facilities Grant and Capital	9.7	10.6	Sole Control – Council
Non-recurring Pump Priming Schemes	0.2	-	Joint Control
Contingency	0.1	-	Joint Control
Health & Social Care System Improvements	-	3.5	Sole Control - Council
	<b>98.0</b>	<b>100.8</b>	
Balance of funding	-		
iBCF	33.8	47.3	Sole Control – Council
<b>Total BCF</b>	<b>131.8</b>	<b>148.1</b>	

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### **Other Related Parties**

During 2018/19 payments, to the value of £461.7m, inclusive of VAT, were payable to related parties of which £16.4m remained outstanding at 31 March 2019. Additionally £103.0m inclusive of VAT, was receivable during 2018/19 from companies in which the Council had a related party interest of which £38.2m remained outstanding at 31 March 2019. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2019 are: assets of £41.2m of investments and £74.8m of loans (of which £74.0m is repayable after 31 March 2020); liabilities of £84.5m of funding guarantee (NEC Developments Plc), £27.0m held as cash invested by Birmingham Children's Trust and £10.5m of borrowings (of which £7.2m is repayable after 31 March 2020).

**Entities Controlled or Significantly Influenced by the Council**

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

	Exp.	Income	Loans		Council	Council
	£m	£m	Council as Grantor	Repaid	Assets at	Liabilities
	£m	£m	£m	£m	year end	at year end
Acivico Limited	27.7	1.0	6.0	26.1	10.3	5.1
Birmingham Children's Trust CIC	206.7	19.3	4.0	-	10.3	28.3
Birmingham City Propco Limited	-	-	-	1.0	20.2	-
InReach (Birmingham) Limited	-	0.1	2.8	1.0	13.7	0.1
National Exhibition Centre (Developments) Plc	5.6	-	-	0.2	0.1	84.5
PETPS (Birmingham) Limited	-	-	-	-	-	-
PETPS (Birmingham) Pension Funding Scottish Limited Partnership	3.5	-	-	-	-	10.7

Separate to the numbers in the table above the Council has made a provision of £8.7m in its accounts for potential reimbursement right support to its subsidiaries as a result of giving a letter of assurance.

**The associates and joint venture that have been consolidated into the group financial statements are listed below:-**

	Expenditure	Income	Council Assets	Council Liabilities
	£m	£m	at year end	at year end
	£m	£m	£m	£m
Birmingham Airport Holdings Limited (BAH)	-	8.4	2.0	-
Paradise Circus General Partner Limited	17.2	1.1	0.8	-

The Council also has relationships with a number of other companies and third party organisations where the assets and liabilities of the Council's holding is not material to the Group Accounts or where the Council has representation and influence on the board of the organisation but has no claim on the assets and liabilities of the organisation. Details of the organisation and its relationship to the Council are set out in the tables below.

Organisations where the Council has 100% share ownership of the company but the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Birmingham Business Support Centre Limited	Fields Millennium Green Trust (Kings Norton)
Birmingham Charities Limited	Finance Birmingham Limited*
Birmingham Curzon Regeneration Company Limited	Forward Homes (Birmingham) Limited
Birmingham Endeavour Limited	Frontier Development Holding Limited
Birmingham Municipal Housing Limited	Gallery 37 Foundation
Birmingham Museums Trust*	Greater Birmingham and West Midlands Brussels Office
Birmingham Venture Capital Limited*	NEC Pension Trustee Company Limited*

Birmingham Wheels Ltd  
Creative Advantage West Midlands Limited

NEC Pension Trustee Company No.2 Limited  
Performances (Birmingham ) Limited\*

### Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Ascarii Limited	Frontier Development Capital Limited
Ascension Ventures*	Goodfish Limited
Auctus*	Icknield Port Loop LLP
Big Button	Inceptum Development Limited
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)	Info-Ctrl Limited
Birmingham Schools SPC Holdings Phase 1A Limited	Learning Labs Limited
Birmingham Schools SPC Phase 1A Limited*	Midlands Industrial Association Ltd
Birmingham Schools SPC Holdings Phase 1B Limited	Mutt Motorcycles Limited*
Birmingham Schools SPC Phase 1B Limited*	Natural HR Limited
Birmingham Wholesale Market Company Limited*	Obillex Limited
Bridge Street Management Ltd	Opinsta Limited
Central Technology Belt	Owned It
Crowd Technologies	Pure Business Services Limited
CSR City Limited	Stockfield Community Association
Droplet Online	Stockfield Community Association (Subsidiary) Ltd
Ex Cathedra	UK Municipal Bonds Agency Plc*
Eyoto Group Limited	Veolia Environmental Services Birmingham Ltd*
Foodient T/A Whisk	Vision Technologies
Formatzone Limited	West Midlands Growth Company Limited*
Friends of Rectory park	Wetakestock Limited

The Council also has representation on the board of a number of organisations but has no associated shareholding or entitlement to returns from the organisation. Details of the relevant companies are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Acocks Green Primary School Academy*	Greenholm Primary School Academy
Active Wellbeing Society Limited*	Heart Of England NHS FT
Alston Primary School Academy*	Heathfield Primary School Academy*
Ark Tindal Primary School Academy*	Joseph Chamberlain College*
Bartley Green School Academy*	King Edward VI Academy Trust*
Birmingham Asian Resource Centre	Leigh Primary School Academy*
Birmingham Citizens Advice Bureau Service Ltd*	Midlands Arts Centre
Birmingham Disability Resource Centre*	Millennium Point Property Ltd*
Birmingham Opera Company	Millennium Point Trust
Birmingham Organising Committee for the 2022 Commonwealth Games Limited*	Shenley School Academy
Birmingham Repertory Theatre*	St. Basil's*
Birmingham Royal Ballet*	St. Michael's Primary School Academy

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Birmingham Settlement Ltd*	St. Paul's Community Development Trust*
Birmingham Voluntary Service Council	Thorns Collegiate Academy
Bournville College	Tile Cross Academy School*
Bournville Village Trust*	Warren Farm Primary School Academy*
Castle Vale Neighbourhood Partnership Board	Warwickshire County Cricket Club*
City of Birmingham Symphony Orchestra*	West Midlands Ambulance Service
Clifton Road Youth Centre	West Midlands Combined Authority*
Cockshut Hill Technology College Academy*	West Midlands Fire and Rescue Authority
Cottesbrooke Infant and Nursery School Academy*	Wilson Stuart School Academy*
Dance Xchange	Witton Lodge Community Association Ltd*
Greater Birmingham and Solihull LEP Ltd.	

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has representation on BID boards within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2018/19.

Acocks Green Village BID	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 2018/19.

Bloomsbury Estate Management Board*	Manor Close Residents' Management Organisation
Four Towers TMO*	Roman Way Estate Community Interest Company*
Holly Rise Housing Co-operative	

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Other Related Parties

In addition to the companies where the Council has influence through its share ownership or representation on the board, set out above, the Council has had transactions of over £100,000 within 2018/19 with the following organisations which fall within the definition of related parties:

Accessible Transport Group Limited	Norton Hall Children and Family Centre
Anthony Collins Solicitors	Penderels Trust Limited
Birmingham and Solihull Mental Health Trust	Sandwell and West Birmingham Hospitals
Birmingham and Solihull Women's Aid	NHST
Birmingham Community Healthcare NHSFT	Sandwell College
Birmingham Women's and Children's NHSFT	Shencare Community Transport Trust
Birmingham YMCA	Sir Josiah Mason Trust
ESN Solicitors	South and City College (Birmingham) Limited
Focus Birmingham	St. Anne's Hostel
Highclare Independent School	Thompsons Solicitors
Leigh Trust	University Hospital Birmingham Foundation
	Trust
	Yardley Great Trust

The value of transactions for other, non-consolidated, related parties, individually less than £100,000 within 2018/19 was net expenditure of £0.4m (£1.2m expenditure and £0.8m income).



**Note 49****The Council Acting as Agent**

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

Agency Role	No	Level of Reserve	Gross Expenditure
		£m	£m
Provision of External Payrolls	133	-	292.6
Accountable Body	30	201.7	175.3
Business Rate Pooling	8	2.0	138.6
Arrangements supporting Housing activities	5	1.1	6.4
Reporting of Trust activities	22	24.7	0.5
Subsidiary Companies	5	28.1	0.1
Other transactions	10	0.6	0.3

**External Payrolls**

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

**Accountable Body Role**

The Council acts as accountable body for a number of external activities, including the Greater Birmingham & Solihull Local Enterprise Partnership (the LEP), Local Enterprise Zones and the England Illegal Money Lending Team.

The Council records and reports the financial activities of the bodies for which it is accountable and may receive directly the funds allocated to the activities and incur expenditure as directed by the external party. The Council may also receive funds in its own right from the arrangement to support eligible projects, which will form part of the Council's financial statements.

**Greater Birmingham & Solihull Local Enterprise Partnership**

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

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

The Council acts as accountable body for the resources provided on behalf of the LEP. The Council may receive direct funding to support eligible projects as determined by the LEP's independent investment boards and committees.

## Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

## England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its accountable body activities on behalf of the Courts.

## Business Rate Pooling

Details of the Greater Birmingham and Solihull Business Rates Pooling Arrangement are set out in Note 48 to these financial statements.

## Housing Activities

For a number of mixed tenure housing developments on Council owned land, the Council receives payment for any market sales prior to distribution between the Council and the developer.

## Trusts

The Council provides administrative and accountancy support to a number of trusts and some of those are transacted through the Council's bank accounts. Included within this group are activities related to the collection of rent and management of properties on behalf of Housing Trusts and Community Associations.

## Subsidiary Companies

Following the disposal of the Council's interests in NEC Group Limited, NEC (Developments) Plc has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts. The Council provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities. In 2018/19, the Council has set up an arrangement through PETPS (Birmingham) Capital, PETPS (Birmingham) General Partner Limited and their joint partnership, PETPS (Birmingham) Pension Funding Scottish Limited Partnership that will enable the Council to spread the implications of the guarantee across the anticipated deficit recovery period.

## Other

The Council provides accountancy support to:

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

## Note 50

### Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total funds held at 31 March 2019 was £29.8m (2017/18: £28.8m). In addition, the Council held £nilm (2017/18: £2.1m) of Adult Services Clients' Funds. The trust funds and clients' funds do not represent assets of the Council and have not been included in the Consolidated Balance Sheet. The major trust funds are detailed below.

	Balance at 31 March 2018	Income	Expenditure	Balance at 31 March 2019
	£m	£m	£m	£m
<b>Council acting as Sole Trustee</b>				
Birmingham Municipal Charity - general charitable objectives	0.7	-	-	0.7
Charles Baker Trust – for the elderly and disabled	0.3	-	-	0.3
Cropwood Estate – management of the estate	14.8	0.1	-	14.9
Elford Trust – healthy recreation for Birmingham citizens	3.5	0.6	-	4.1
Harriet Louisa Loxton Charity – for the aged and infirm	1.8	0.2	0.1	1.9
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	0.1	0.1	2.0
Other	0.2	-	-	0.2
<b>Total Council acting as Sole Trustee</b>	<b>23.3</b>	<b>1.0</b>	<b>0.2</b>	<b>24.1</b>
<b>Council acting as Custodian</b>				
Alderson – to let dwelling houses to ex-servicemen and other persons in need	0.4	0.1	-	0.5
Bodenham Trust – for children with special educational needs	0.7	-	-	0.7
Clara Martineau Trust – for children with special educational needs	4.1	0.4	0.2	4.3
The Lord Mayor's Charity Appeal – for charitable purposes	0.1	-	0.1	-
Moseley Road Friends Institute – provision and maintenance	0.2	0.1	0.1	0.2
Other	-	-	-	-
<b>Total Council acting as Custodian</b>	<b>5.5</b>	<b>0.6</b>	<b>0.4</b>	<b>5.7</b>
<b>Total Trust Balances</b>	<b>28.8</b>	<b>1.6</b>	<b>0.6</b>	<b>29.8</b>

## Analysis of the assets of the main funds:

	Restricted Funds at 31 March 2019	Unrestricted Funds at 31 March 2019	Total Funds at 31 March 2019
	£m	£m	£m
<b>Council acting as Sole Trustee</b>			
Birmingham Municipal Charity - general charitable objectives	0.7	-	0.7
Charles Baker Trust – for the elderly and disabled	0.1	0.2	0.3
Cropwood Estate – management of the estate	0.5	14.4	14.9
Elford Trust – healthy recreation for Birmingham citizens	3.8	0.3	4.1
Harriet Louisa Loxton Charity – for the aged and infirm	1.6	0.3	1.9
Highbury Trust – for the benefit of the citizens of Birmingham	2.0	-	2.0
Other	0.1	0.1	0.2
<b>Total Council acting as Sole Trustee</b>	<b>8.8</b>	<b>15.3</b>	<b>24.1</b>
<b>Council acting as Custodian</b>			
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			
<b>Total Council acting as Custodian</b>	<b>4.7</b>	<b>1.0</b>	<b>5.7</b>
<b>Total Assets</b>	<b>13.5</b>	<b>16.3</b>	<b>29.8</b>

# SUPPLEMENTARY FINANCIAL STATEMENTS 2018/19

## Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

The Council has adopted IFRS 9, *Financial Instruments*, for the first time in 2018/19 as a modified retrospective adjustment. Provision for bad debts is included in the surplus/deficit for the year for 2018/19 (2017/18 included in total expenditure).

2017/18		Note	2018/19
£m			£m
	<b>Income</b>		
(258.6)	Dwellings rents		(253.6)
(9.1)	Non-dwellings rents		(11.4)
(19.0)	Charges for services and facilities		(19.8)
<b>(286.7)</b>	<b>Total Income</b>		<b>(284.8)</b>
	<b>Expenditure</b>		
53.5	Repairs and maintenance		50.3
82.5	Supervision and management		86.1
5.4	Rent, rates, taxes and other charges		5.5
50.6	Depreciation and impairment charge	H3 & H6	52.0
0.2	Debt management costs		0.3
4.5	Movement in the allowance for bad debts (not specified by the Code)		-
<b>196.7</b>	<b>Total Expenditure</b>		<b>194.2</b>
	<b>Net Expenditure/(Income) of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement and Net (Income) / Cost of HRA Services</b>		
<b>(90.0)</b>			<b>(90.6)</b>

**HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:**

-	Change in fair value of financial instruments	4.4
51.3	Interest payable and similar charges	50.4
0.4	Amortisation of premia and discounts	0.5
(0.5)	HRA interest and investment income	(0.6)
(19.0)	(Gains)/ Losses on the disposal of HRA non-current assets	(20.8)
3.8	Pensions interest cost and expected return on pensions assets	8.1
(4.8)	Capital Grants and Contributions Receivable	(3.0)
<hr/> <b>(58.8) (Surplus)/Deficit for the Year on HRA Services</b>		<hr/> <b>(51.6)</b>

**Movement on the Housing Revenue Account Statement**

2017/18		2018/19
£m		£m
(58.8)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	(51.6)
56.4	Adjustments between accounting basis and funding basis under statute (Note 17)	46.7
<hr/> <b>(2.4)</b>	Net (increase) / decrease before transfers to / (from) reserves	<hr/> <b>(4.9)</b>
2.3	Transfers to / (from) reserves	4.3
<hr/> <b>(0.1)</b>	(Increase) / decrease for the year on HRA balance	<hr/> <b>(0.6)</b>
(4.7)	HRA Balance Brought Forward	(4.8)
<hr/> <b>(4.8)</b>	HRA Balance Carried Forward	<hr/> <b>(5.4)</b>

## Notes to the Housing Revenue Account

### H1. Housing Stock

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

31 March 2018		31 March 2019
3,715	1 bedroom bungalows	3,712
15,036	1 bedroom flats	14,947
52	1 bedroom houses	58
295	2 bedroom bungalows	294
10,708	2 bedroom flats	10,586
8,428	2 bedroom houses	8,393
30	3 or more bedroom bungalows	30
4,009	3 or more bedroom flats	3,937
19,180	3 or more bedroom houses	18,879
<b>61,453</b>	<b>Total housing stock</b>	<b>60,836</b>

The change in the property numbers is analysed below:

2017/18		2018/19
62,070	Stock at 1 April	61,453
(784)	Sales	(680)
(119)	Demolitions / transfers	(118)
286	Acquisitions	181
<b>61,453</b>	<b>Stock at 31 March</b>	<b>60,836</b>

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

31 March 2018		31 March 2019
£m		£m
2,283.8	Council dwellings/garages	2,445.0
23.7	Assets under Construction	12.7
37.8	Other land and buildings	44.2
<b>2,345.3</b>	<b>Total operational assets</b>	<b>2,501.9</b>
19.2	Non-operational assets	19.6
<b>2,364.5</b>	<b>Total</b>	<b>2,521.5</b>

The housing stock, land and other property within the HRA are valued in line with the MHCLG Guidance on Stock Valuation for Resource Accounting published in November 2016. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2018/19 of 40%.



The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £108.6m was spent on HRA dwellings during the year.

As at 31 March 2019, the Council also owned 118 dwellings (31 March 2018: 86) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £4.7m (31 March 2018: £3.2m).

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

31 March 2018		31 March 2019
£m		£m
547.4	Land	595.7
19.2	Kitchens	18.2
23.1	Bathrooms	22.7
34.3	Windows	34.9
52.4	Heating	51.4
18.4	Roofs	11.2
1,589.0	Remaining Structure	1,710.9
<b>2,283.8</b>	<b>Total</b>	<b>2,445.0</b>

## H2. Value of Dwellings on Vacant Possession

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2019 is £5,890.3m.

(b) The difference between the above figure and the figure of £2,445.0m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the MHCLG's stock valuation model as explained in Supplementary Note H1.

## H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event that has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. There has been no identified impairment in HRA asset values in 2018/19 (2017/18: £nil). A revaluation of the HRA dwellings has identified a net increase in value of £161.2m. This increase has been transferred to a revaluation reserve.

#### H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

2017/18		2018/19
£m		£m
39.0	Balance on Major Repairs Reserve at 1 April	28.6
50.3	Amount transferred to Major Repairs Reserve during the year	51.7
(60.7)	Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA	(55.5)
<b>28.6</b>	<b>Balance on Major Repairs Reserve at 31 March</b>	<b>24.8</b>

#### H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2017/18		2018/19
£m		£m
48.3	Usable Capital Receipts (Right to Buy/Land)	43.4
60.7	Major Repairs Reserve	55.4
0.3	HRA Revenue contributions	0.2
-	Prudential Borrowing	1.0
4.1	Other resources	8.6
<b>113.4</b>		<b>108.6</b>

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £54.5m (land £14.9m, houses £39.6m). The values for 2017/18 were £58.9m (land £19.9m and houses £39.0m). The Government operates a capital receipts pooling framework and of these amounts £6.3m was paid to Central Government (2017/18: £6.3m).

#### H6. Depreciation Charges

The total charge for depreciation for the houses and other property within the Council's HRA is £51.7m (2017/18: £50.3m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

## H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard (IAS) 19 as described in detail in Note 21 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

## H8. Rent Arrears

Rent arrears from current tenants at 31 March 2019 totalled £12.5m (2017/18: £12.9m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £28.3m at 31 March 2019 (2017/18: £23.4m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £31.5m at 31 March 2019 (2017/18: £31.4m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2018		31 March 2019
£m		£m
12.9	Current tenants	12.5
13.8	Housing benefit overpayment	13.4
9.6	Other debt (services/leaseholders)	14.9
<b>36.3</b>	<b>Total arrears</b>	<b>40.8</b>
31.4	Provision for bad debts	31.5

## Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and Business Rates or National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

2017/18			Income	2018/19		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m		£m	£m	£m
(364.1)		(364.1)		(387.1)		(387.1)
(364.1)	(453.9)	(364.1)	(387.1)	(448.5)	(387.1)	
	8.2	(453.9)		1.8	(448.5)	
		8.2			1.8	
	(445.7)	(445.7)		(446.7)	(446.7)	
	(1.5)	(1.5)	Enterprise Zone Deficit Repayable to the Collection Fund		(2.6)	(2.6)
			Apportionment of Prior Year Deficit:			
-	(9.9)	(9.9)	Birmingham City Council	-	-	-
	(10.1)	(10.1)	Central Government		(1.8)	(1.8)
-	(0.2)	(0.2)	West Midlands Fire & Rescue Authority	-	-	-
-		-	West Midlands Police and Crime Comm.	-		-
-	(20.2)	(20.2)	Total Apportionment of Prior Year Deficit	-	(1.8)	(1.8)
(364.1)	(467.4)	(831.5)	TOTAL INCOME	(387.1)	(451.1)	(838.2)

2017/18			Expenditure	2018/19		
Council Tax	NNDR	Total		Council Tax	NNDR	Total
£m	£m	£m		£m	£m	£m
313.6	400.9	714.5		329.3	436.9	766.2
0.1		0.1	0.1		0.1	
1.8		1.8	1.9		1.9	
	-	-			-	
14.2	4.0	18.2	14.7	4.4	19.1	
28.9		28.9	32.2		32.2	
9.0	9.1	18.1	6.1	11.1	17.2	
	11.9	11.9		5.1	5.1	
	1.9	1.9		1.8	1.8	
367.6	427.8	795.4	384.3	459.3	843.6	
3.5	(39.6)	(36.1)	(2.8)	8.2	5.4	
(5.6)	23.9	18.3	(2.1)	(15.7)	(17.8)	
(2.1)	(15.7)	(17.8)	(4.9)	(7.5)	(12.4)	

**Notes to the Collection Fund****C1. Contributions from Council Taxpayers**

The Council's tax base at January 2018 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

<b>Band</b>	<b>Number of Properties</b>	<b>Ratio</b>	<b>Band D equivalent dwellings</b>
AR	161	5/9	90
A	86,397	6/9	57,598
B	88,590	7/9	68,903
C	60,283	8/9	53,585
D	31,761	1	31,761
E	18,031	11/9	22,038
F	8,135	13/9	11,751
G	5,408	15/9	9,013
H	765	18/9	1,530
<b>Total</b>	<b>299,531</b>		<b>256,269</b>
Less adjustment for collection rate			(7,431)
			<b>248,838</b>

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish Council are:

<b>Band</b>	<b>Number of Properties</b>	<b>Ratio</b>	<b>Band D equivalent dwellings</b>
AR	1	5/9	1
A	690	6/9	460
B	1013	7/9	787
C	85	8/9	76
D	52	1	52
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
<b>Total</b>			<b>1,379</b>
Less adjustment for collection rate			(40)
			<b>1,339</b>

The figures for Sutton Coldfield Town Council are:

<b>Band</b>	<b>Number of Properties</b>	<b>Ratio</b>	<b>Band D equivalent dwellings</b>
AR	1	5/9	1
A	1,699	6/9	1,133
B	3,991	7/9	3,104
C	6,219	8/9	5,528
D	8,394	1	8,394
E	7,873	11/9	9,623
F	3,870	13/9	5,590
G	2,447	15/9	4,078
H	351	18/9	702
<b>Total</b>			<b>38,153</b>
Less adjustment for collection rate			(1,106)
			<b>37,047</b>

## C2. Business Ratepayers

The Council collects Business Rates (NNDR) receipts for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (48.0p for 2018/19: 46.6p for 2017/18). The total non-domestic rateable value at 31 March 2019 was £1,124.96m (31 March 2018: £1,123.03m).

Since 1 April 2017, the Council has been included in a 100% Local Business Rates Retention pilot. The amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 99% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

Previously Business Rates were distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

## C3. Precept Payments

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, Sutton Coldfield Town Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the Business Rates element of the Collection Fund are the City Council and the West Midlands Fire and Rescue Authority.



## Draft Statement of GROUP Accounts 2018/19

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## **NARRATIVE REPORT**

### **Introduction**

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases, it has created separate companies with its partners to deliver those services. The use of separate companies means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

This section presents the statutory financial statements for Birmingham City Council Group (the Group) for the period from 1 April 2018 to 31 March 2019. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of its subsidiaries, associates and joint ventures have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting Policies are made as consolidation adjustments.

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

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

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2019, with comparative figures for the previous financial year.

### **Consolidation of Subsidiaries, Associate Companies and Joint Ventures**

The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings or joint ventures). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest and the level of activity is considered material to the Group as a whole.

The Council has incorporated one new company, Birmingham Children's Trust Community Interest Company, into its Group consolidation in 2018/19 as it became operational from 1 April 2018 and its level of activity is considered material. The Children's Trust is responsible for the delivery of social care services for children with all its activities being delivered through a contract with the Council. The company is a community interest company with the Council as sole member. However, the company is asset locked and the Council has no entitlement to any assets of the company. Further details are set out in note G24.

The Council disposed of its assets in Innovation Birmingham Limited on 18 April 2018.



The entities consolidated into the Council's Group Accounts are:

Subsidiaries

Acivico Limited  
 Birmingham Children's Trust CIC – from 1 April 2018  
 Birmingham City Propco Limited  
 Innovation Birmingham Limited – to 18 April 2018  
 InReach (Birmingham) Limited  
 National Exhibition Centre (Developments) Plc  
 PETPS (Birmingham) Limited  
 PETPS (Birmingham) Pension Funding Scottish Limited Partnership

Associates

Birmingham Airport Holdings Limited  
 Service Birmingham Limited – to 31 December 2017 and for comparative purposes only

Joint Venture

Paradise Circus General Partner Limited

Further detail regarding the Council's relationship with the above companies is given in notes G24 and G25.

The Council maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Financial Statements, either on the basis of materiality or that the Council does not exercise control or has no significant influence over the operation of the entity. Further details are set out in Note 48, Related Parties to the Council entity accounts.

## The Main Financial Statements

The following statements consolidate the accounts of the Council with those of its subsidiaries, associates and joint venture. Transactions between the Council and its Group entities are eliminated on consolidation. Details of the inter-company transactions are set out in Note 48, Related Parties, to the entity accounts.

The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/ (deficit) on the provision of services is detailed below.

	2017/18		2018/19	
	Entity £m	Group £m	Entity £m	Group £m
Surplus/(Deficit) on Provision of Services	(22.0)	(34.1)	(19.3)	(3.9)

The 2018/19 GCIES shows a positive movement of £30.2m in the movement on the net Surplus/(Deficit) on Provision of Services compared to 2017/18. Details of the major movements are set out in the Narrative Report in the Council entity accounts.

Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

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

	2017/18		2018/19	
	Entity	Group (Restated)	Entity	Group
	£m	£m	£m	£m
Long Term Assets	6,164.4	6,159.5	6,301.8	6,302.1
Current Assets	459.7	467.0	471.3	467.6
Current Liabilities	(1,357.0)	(1,374.0)	(1,099.6)	(1,086.1)
Long Term Liabilities	(5,814.9)	(5,820.1)	(5,821.5)	(5,908.1)
<b>Net Assets/(Liabilities)</b>	<b>(547.8)</b>	<b>(567.6)</b>	<b>(148.0)</b>	<b>(224.5)</b>
Represented by:				
Usable Reserves	969.9	938.0	937.4	852.9
Unusable Reserves	(1,517.7)	(1,505.6)	(1,085.4)	(1,077.4)
<b>Total Reserves</b>	<b>(547.8)</b>	<b>(567.6)</b>	<b>(148.0)</b>	<b>(224.5)</b>

The net liability has decreased by £343.1m to £224.5m. This is mainly due to an increase in the carrying value of Property, Plant & Equipment together with reduction in the overall level of borrowing.

The difference in the level of usable reserves between the entity accounts and the group accounts has increased by £52.6m, rising from a gap of £31.9m to £84.5m. This increase is mainly due to the way that the pension liabilities of companies are shown. Within the Council, there is a statutory override which allows the impact of a net pension deficit to be reflected in unusable reserves whilst in companies, the pension deficit impacts directly on usable reserves. The transfer of staff to Birmingham Children's Trust CIC would have had the impact of switching a deficit reserve held in unusable reserves as at 31 March 2018 to a deficit reserve in usable reserves at 31 March 2019.

Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

## Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. Discontinued operations relate to Innovation Birmingham which was treated as Assets Held for Sale at 31 March 2018. The details for 2017/18 have been restated following the Council restructure, details of which are set out in Note 8 in the entity accounts and in Note G3.

2017/18 (Restated)			Note	2018/19		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£m	£m	£m		£m	£m	£m
<b>Continuing Operations</b>						
554.9	(207.4)	347.5		551.9	(213.6)	338.3
1,111.4	(800.9)	310.5		1252.5	(792.2)	460.3
264.3	(86.5)	177.8		251.0	(84.3)	166.7
155.2	(90.8)	64.4		181.4	(99.1)	82.3
9.8	(1.3)	8.5		19.3	(1.7)	17.6
627.5	(585.9)	41.6		596.1	(550.9)	45.2
6.7	(7.6)	(0.9)		6.8	(14.2)	(7.4)
34.5	(64.5)	(30.0)		9.1	(58.7)	(49.6)
-	-	-		(122.8)	-	(122.8)
3.2	-	3.2		2.9	(0.3)	2.6
196.7	(286.7)	(90.0)		194.2	(284.8)	(90.6)
<b>2,964.2</b>	<b>(2,131.6)</b>	<b>832.6</b>		<b>2,942.4</b>	<b>(2,099.8)</b>	<b>842.6</b>
6.2	(4.5)	1.7	G5	0.2	(0.2)	-
<b>2,970.4</b>	<b>(2,136.1)</b>	<b>834.3</b>		<b>2,942.6</b>	<b>(2,100.0)</b>	<b>842.6</b>
77.5		77.5		65.1	-	65.1
289.9	(55.5)	234.4	G6	300.5	(80.3)	220.2
1.8	(1,113.9)	(1,112.1)		2.2	(1,126.2)	(1,124.0)
		<b>34.1</b>				<b>3.9</b>
		(6.0)				(2.3)
		-				-
		1.5				1.2
		<b>29.6</b>				<b>2.8</b>
<b>Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services</b>						
		(395.7)	G7			(232.7)
		0.2				4.0
		(158.7)	G21			(122.1)
		5.6				4.8
		<b>(548.6)</b>				<b>(346.0)</b>
<b>Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services</b>						
		0.8				-
		<b>0.8</b>				-
		<b>(547.8)</b>				<b>(346.0)</b>
		<b>(518.2)</b>				<b>(343.2)</b>
<b>Other Comprehensive (Income) / Expenditure</b>				<b>(346.0)</b>		
<b>Total Comprehensive (Income) / Expenditure</b>				<b>(343.2)</b>		

## 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
<b>Balance at 1 April 2017</b>	<b>412.9</b>	<b>4.7</b>	<b>278.3</b>	<b>39.0</b>	<b>95.2</b>	<b>830.1</b>	<b>(1,903.4)</b>	<b>(1,073.3)</b>	<b>(12.5)</b>	<b>(1,085.8)</b>
<b>Movement in Reserves during 2017/18(Restated)</b>										
Surplus/(Deficit) on the provision of services	(62.9)	58.8				(4.1)		(4.1)	(25.5)	(29.6)
Other Comprehensive Income and Expenditure							547.5	547.5	0.3	547.8
<b>Total Comprehensive Income and Expenditure</b>	<b>(62.9)</b>	<b>58.8</b>				<b>(4.1)</b>	<b>547.5</b>	<b>543.4</b>	<b>(25.2)</b>	<b>518.2</b>
Adjustments between Group Accounts and Council Accounts (Note G22)	(17.9)					(17.9)		(17.9)	17.9	-
Changes in Group Reserves accounted for through equity (G23)									-	-
<b>Net Increase/(Decrease) before Transfers</b>	<b>(80.8)</b>	<b>58.8</b>				<b>(22.0)</b>	<b>547.5</b>	<b>525.5</b>	<b>(7.3)</b>	<b>518.2</b>
Adjustments between accounting basis and funding basis under regulations (Note 16)	177.0	(58.7)	42.1	(10.4)	11.8	161.8	(161.8)	-		-
<b>Increase/(Decrease) in 2017/18</b>	<b>96.2</b>	<b>0.1</b>	<b>42.1</b>	<b>(10.4)</b>	<b>11.8</b>	<b>139.8</b>	<b>385.7</b>	<b>525.5</b>	<b>(7.3)</b>	<b>518.2</b>
<b>Balance at 31 March 2018</b>	<b>509.1</b>	<b>4.8</b>	<b>320.4</b>	<b>28.6</b>	<b>107.0</b>	<b>969.9</b>	<b>(1,517.7)</b>	<b>(547.8)</b>	<b>(19.8)</b>	<b>(567.6)</b>
<b>Movement in Reserves during 2018/19</b>										
Adjustment for the Restatement of Financial Instruments	(0.5)					(0.5)	(0.4)	(0.9)	-	(0.9)
<b>Restated Balance brought forward at 1 April 2018</b>	<b>508.6</b>	<b>4.8</b>	<b>320.4</b>	<b>28.6</b>	<b>107.0</b>	<b>969.4</b>	<b>(1,518.1)</b>	<b>(548.7)</b>	<b>(19.8)</b>	<b>(568.5)</b>
Surplus/(Deficit) on the provision of services	134.9	50.6				185.5		185.5	(191.8)	(6.3)
Other Comprehensive Income and Expenditure						-	420.0	420.0	(69.8)	350.2
<b>Total Comprehensive Income and Expenditure</b>	<b>134.9</b>	<b>50.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>185.5</b>	<b>420.0</b>	<b>605.5</b>	<b>(261.6)</b>	<b>343.9</b>
Adjustments between Group Accounts and Council Accounts (Note G22)	(204.8)					(204.8)		(204.8)	204.8	-
Changes in Group Reserves accounted for through equity (G23)									0.1	0.1
<b>Net Increase/(Decrease) before Transfers</b>	<b>(69.9)</b>	<b>50.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19.3)</b>	<b>420.0</b>	<b>400.7</b>	<b>(56.7)</b>	<b>344.0</b>
Adjustments between accounting basis and funding basis under regulations (Note 16)	121.4	(50.0)	(80.1)	(3.7)	(0.3)	(12.7)	12.7	-		-
<b>Increase/(Decrease) in 2018/19</b>	<b>51.5</b>	<b>0.6</b>	<b>(80.1)</b>	<b>(3.7)</b>	<b>(0.3)</b>	<b>(32.0)</b>	<b>432.7</b>	<b>400.7</b>	<b>(56.7)</b>	<b>344.0</b>
<b>Balance at 31 March 2019</b>	<b>560.1</b>	<b>5.4</b>	<b>240.3</b>	<b>24.9</b>	<b>106.7</b>	<b>937.4</b>	<b>(1,085.4)</b>	<b>(148.0)</b>	<b>(76.5)</b>	<b>(224.5)</b>

## Group Balance Sheet

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

31 March 2018		Note	31 March 2019
£m			£m
5,735.0	Property, Plant and Equipment	G7	5,878.6
251.6	Heritage Assets		249.8
20.2	Investment Properties	G8	44.6
13.7	Intangible Assets		7.4
3.8	Long Term Investments		4.0
114.7	Long Term Debtors		97.7
20.5	Investments in Associates and Joint Ventures	G25	20.0
<b>6,159.5</b>	<b>Total Long Term Assets</b>		<b>6,302.1</b>
72.6	Short Term Investments		66.2
15.3	Assets Held for Sale		23.4
1.3	Inventories		1.4
321.5	Short Term Debtors	G10	324.6
56.3	Cash and Cash Equivalents		52.0
<b>467.0</b>	<b>Total Current Assets</b>		<b>467.6</b>
(35.4)	Cash and Cash Equivalents		(15.2)
(796.5)	Short Term Borrowing		(552.8)
(333.3)	Short Term Creditors	G11	(321.4)
(20.7)	Liabilities in Disposal Groups	G5	-
(188.1)	Provisions		(196.7)
<b>(1,374.0)</b>	<b>Total Current Liabilities</b>		<b>(1,086.1)</b>
(74.5)	Long Term Creditors	G9	(75.3)
(23.5)	Provisions		(16.7)
(2,644.0)	Long Term Borrowing		(2,763.8)
(462.1)	Other Long Term Liabilities		(444.4)
(2,616.0)	Net Liability on Defined Benefit Pension Scheme	G21	(2,607.9)
<b>(5,820.1)</b>	<b>Total Long Term Liabilities</b>		<b>(5,908.1)</b>
<b>(567.6)</b>	<b>Net Assets/(Liabilities)</b>		<b>(224.5)</b>
938.0	Usable Reserves	G12	852.9
(1,505.6)	Unusable Reserves	G13	(1,077.4)
<b>(567.6)</b>	<b>Total Reserves</b>		<b>(224.5)</b>

## Group Cash Flow Statement

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

2017/18		Note	2018/19
£m			£m
(27.6)	Net Surplus/(Deficit) on Continuing Operations		(2.8)
(2.0)	Net Surplus/(Deficit) on Discontinued Operations	G5	-
<b>(29.6)</b>	<b>Net Surplus/(Deficit) on the provision of services</b>		<b>(2.8)</b>
74.9	Adjustments to net Surplus/(Deficit) on the provision of services for non-cash movements	G17	448.6
(224.1)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	G17	(262.1)
<b>(178.8)</b>	<b>Net cash flows from Operating Activities</b>		<b>183.7</b>
(149.4)	Investing Activities	G15	(118.2)
316.6	Financing Activities	G16	(49.6)
<b>(11.6)</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15.9</b>
32.5	Cash and cash equivalents at the beginning of the reporting period		20.9
<b>20.9</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>36.8</b>

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## NOTES TO THE GROUP ACCOUNTS

### Note G1

#### Accounting Policies

The Group Financial Statements summarise the Council's and its Group's transactions for the 2018/19 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries, associates or joint ventures with details included in respect of the classification within Notes G24 and G25. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates and joint ventures consolidated under the equity method.

Investments in subsidiaries and associates in the Council's entity accounts are carried at cost rather than fair value less any provision for losses unless there is evidence of impairment.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity accounts, with additional policies specific to the Group set out below.

#### Disposal of a Subsidiary Company

When a subsidiary company is disposed of, the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and form part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

#### Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G21.

#### Defined Benefit Pension Scheme

Acivico Limited and Birmingham Children's Trust CIC participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G21.

**Note G2****Critical Judgements in Applying Accounting Policies**

In addition to the Critical Judgements, set out in Note 2 of the entity accounts, the Council has considered the following judgement in respect of the application of its accounting policies.

The Council has created a number of companies that are limited by guarantee that are also charitable companies. In such cases the Council is sole member on creation of the company.

The Trustees of a charity have the responsibility for determining the policies and the activities of the company in line with the specific remit of the charity. Where the Council is sole member of the charitable company, it also has, through the Articles of Association, the right to appoint Directors or Trustees to sit on the company board. Whilst the Council has the right to appoint Directors, this right is limited to appointing a minority of Directors such that they have less than 20% of the voting rights. The charitable company board is responsible for the day to day management and for setting the direction of the company. Trustees of charities must always act in the best interest of the charity and not in the interests of the body that appointed them.

Whilst the Council is sole member of charitable companies and whilst it may pass resolutions to impact on the operation of the companies, to date it has not done so. There are also financial barriers to the Council exercising any form of control as this may jeopardise the charitable nature of the organisations which would lead to financial detriment.

On the basis of the above factors, the Council considers that it does not have the current ability to direct the relevant activities of charitable companies given its minority level of representation, the Trustees must act independently of the Council in the best interest of the charity and should the Council exercise any rights through its role as sole member, it is considered that this would have an adverse financial impact. Therefore, the Council does not consider that it should consolidate any charitable companies into the Council's Group Accounts.



### Note G3

#### Prior Period Adjustment

The Council has realigned its reporting structure and the Group Comprehensive Income and Expenditure Statement has been adjusted to reflect the new arrangements. Details of the prior period adjustments are set out in Note 8 of the entity accounts.

	Original GCIES in 2017/18 £m	Adjustment for Directorate Realignment £m	Restated for GCIES 2017/18 £m
<b>Net Expenditure</b>			
<b>Continuing Operations</b>			
Adult Social Care & Health	347.5	-	347.5
Children & Young People	310.5	-	310.5
Place	177.8	-	177.8
Economy	64.4	-	64.4
HR Directorate	-	8.5	8.5
Strategic Services	53.3	(11.7)	41.6
Finance & Governance	(0.9)	-	(0.9)
Centrally Managed	(30.0)	-	(30.0)
Chief Executive & Assistant Chief Executive	-	3.2	3.2
Housing Revenue Account	(90.0)	-	(90.0)
<b>Total Continuing Operations</b>	<b>832.6</b>	<b>-</b>	<b>832.6</b>
Discontinued Operations	1.7	-	1.7
<b>Net Cost of Services</b>	<b>834.3</b>	<b>-</b>	<b>834.3</b>

	Original GCIES in 2017/18 £m	Adjustment for Directorate Realignment £m	Restated for GCIES 2017/18 £m
<b>Gross Expenditure</b>			
<b>Continuing Operations</b>			
Adult Social Care & Health	554.9	-	554.9
Children & Young People	1,111.4	-	1,111.4
Place	264.3	-	264.3
Economy	155.2	-	155.2
HR Directorate	-	9.8	9.8
Strategic Services	640.5	(13.0)	627.5
Finance & Governance	6.7	-	6.7
Centrally Managed	34.5	-	34.5
Chief Executive & Assistant Chief Executive	-	3.2	3.2
Housing Revenue Account	196.7	-	196.7
<b>Total Continuing Operations</b>	<b>2,964.2</b>	<b>-</b>	<b>2,964.2</b>
Discontinued Operations	6.2	-	6.2
<b>Net Cost of Services</b>	<b>2,970.4</b>	<b>-</b>	<b>2,970.4</b>

	Original GCIES in 2017/18 £m	Adjustment for Directorate Realignment £m	Restated for GCIES 2017/18 £m
<b><u>Gross Income</u></b>			
<b>Continuing Operations</b>			
Adult Social Care & Health	(207.4)	-	(207.4)
Children & Young People	(800.9)	-	(800.9)
Place	(86.5)	-	(86.5)
Economy	(90.8)	-	(90.8)
HR Directorate	-	(1.3)	(1.3)
Strategic Services	(587.2)	1.3	(585.9)
Finance & Governance	(7.6)	-	(7.6)
Centrally Managed	(64.5)	-	(64.5)
Chief Executive & Assistant Chief Executive	-	-	-
Housing Revenue Account	(286.7)	-	(286.7)
<b>Total Continuing Operations</b>	<b>(2,131.6)</b>	<b>-</b>	<b>(2,131.6)</b>
Discontinued Operations	(4.5)	-	(4.5)
<b>Net Cost of Services</b>	<b>(2,136.1)</b>	<b>-</b>	<b>(2,136.1)</b>

**Note G4****Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

Assumptions made about the future and other major sources of estimation and uncertainty are provided in Note 3 to the Council entity accounts.

There are no additional material assumptions to report in respect of the remaining Group Entities.

**Note G5****Discontinued Operations**

The Council continues to review its partnership arrangements to determine whether there are alternative approaches that may provide a more effective means of delivering services.

As a result of its review, the Council disposed of its interest in Innovation Birmingham Limited on 18 April 2018 through the disposal of head leases in the properties used by the company. Innovation Birmingham Limited was a company, limited by guarantee, with the Council as sole member and was consolidated into the Council's Group Accounts as a subsidiary company. The company's Articles of Association prohibited the distribution of profits.

The Council disposed of its interest in Service Birmingham Limited on 31 December 2017. Service Birmingham Limited was accounted for in the Council's Group Financial Statements as an associate company. Details of the relevant activities are set out below.

**Innovation Birmingham****Comprehensive Income and Expenditure Statement**

	2017/18 £m	2018/19 £m
Turnover	3.3	0.2
Cost of Sales	(4.4)	(0.2)
<b>Gross Profit/(Loss)</b>	<b>(1.1)</b>	<b>-</b>
Other Operating Income		
Other Operating Expenditure	(0.6)	-
<b>Operating Profit/(Loss)</b>	<b>(1.7)</b>	<b>-</b>
Interest Payable	(0.4)	-
<b>Profit/(Loss) before Taxation</b>	<b>(2.1)</b>	<b>-</b>

**Balance Sheet Impact**

	31 March 2018 £m
<b>Assets Held for Sale</b>	
Property, Plant & Equipment	13.3
Short Term Debtors	0.8
Cash & Cash Equivalents	0.3
<b>Accounted for as Assets Held for Sale</b>	<b>14.4</b>
<b>Liabilities in Disposal Groups</b>	
Short Term Creditors	(2.6)
Long Term Creditors	(18.1)
<b>Accounted for as Liabilities in Disposal Groups</b>	<b>(20.7)</b>
<b>Net Liabilities</b>	<b>(6.3)</b>
<b>Represented by:</b>	
P&L Reserve	(10.1)
Revaluation Reserve	3.8
<b>Net Equity</b>	<b>(6.3)</b>

## Cash Flow

Details of the discontinued operations cash flow are included in the Cash Flow Statement and in Note G15, Cash Flow Statement – Investing Activities.

## Service Birmingham

The gain on disposal of the discontinued operations was determined as follows:

	2017/18 £m
Consideration Received	11.1
Investment in Associate	2.4
<b>Gain on disposal of associate</b>	<b>8.7</b>

## Note G6

## Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure disclosed in the Group CIES are detailed below.

2017/18				2018/19		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
184.3	-	184.3	Interest Payable and similar charges	183.3	-	183.3
0.4	-	0.4	Interest Payable by Discontinued Operations	-	-	-
74.1	-	74.1	Net interest on the net defined benefit liability	65.7	-	65.7
-	-	-	(Gain)/Loss on financial assets at amortised cost	18.2	-	18.2
-	-	-	(Gain)/Loss on financial assets at Fair Value through Profit & Loss	-	(9.5)	(9.5)
-	-	-	(Gain)/Loss on the Disposal of Financial Instruments	2.2	-	2.2
-	(16.1)	(16.1)	Interest Receivable and similar income	-	(21.8)	(21.8)
-	(1.6)	(1.6)	Changes in the Fair Value of Investment Properties	-	(10.9)	(10.9)
31.1	(31.7)	(0.6)	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	31.1	(32.4)	(1.3)
-	(6.1)	(6.1)	Other investment income and expenditure	-	(5.7)	(5.7)
289.9	(55.5)	234.4	Sub Total	300.5	(80.3)	220.2

## Note G7

### Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below.

#### Movement in Balances 2018/19

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus Assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	Service Concession Assets included in Property, Plant & Equipment £m
<b>Cost or Valuation</b>									
<b>At 1 April 2018</b>	<b>2,283.8</b>	<b>2,486.2</b>	<b>178.8</b>	<b>629.5</b>	<b>62.1</b>	<b>112.1</b>	<b>196.5</b>	<b>5,949.0</b>	<b>811.9</b>
Additions	102.8	53.7	5.0	30.1	2.3	-	100.3	294.2	32.6
Assets reclassified between categories	16.7	63.3	1.1	1.3	-	-	(96.8)	(14.4)	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	76.5	(51.4)	-	-	-	166.5	-	191.6	(2.2)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(118.5)	-	(52.4)	-	0.3	(0.1)	(170.7)	(53.3)
Derecognition - Disposals	(34.8)	(53.3)	(19.6)	-	-	(2.0)	-	(109.7)	(0.2)
Derecognition - Other	-	-	-	-	-	-	-	-	
Assets reclassified (to)/from Held for Sale	-	(11.9)	-	-	-	(12.2)	-	(24.1)	
Other movements in Cost or Valuation	-	(0.3)	-	-	(1.1)	1.4	-	-	
<b>At 31 March 2019</b>	<b>2,445.0</b>	<b>2,367.8</b>	<b>165.3</b>	<b>608.5</b>	<b>63.3</b>	<b>266.1</b>	<b>199.9</b>	<b>6,115.9</b>	<b>788.8</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2018</b>	<b>-</b>	<b>(28.0)</b>	<b>(74.0)</b>	<b>(111.9)</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>(214.0)</b>	<b>(121.1)</b>
Depreciation charge	(51.7)	(59.8)	(16.3)	(26.2)	-	(0.6)	-	(154.6)	(32.4)
Depreciation written out to the Revaluation Reserve	-	39.9	-	-	-	0.1	-	40.0	2.2
Depreciation written out to the Surplus/Deficit on the Provision of Services	51.0	14.7	-	1.1	-	-	-	66.8	1.9
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	-	-	-	-	-	0.8	
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	-	-	-	-	-	-	-	-	
<b>At 31 March 2019</b>	<b>0.0</b>	<b>(28.9)</b>	<b>(71.2)</b>	<b>(137.0)</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>(237.2)</b>	<b>(149.3)</b>
<b>Net Book Value</b>									
<b>At 31 March 2019</b>	<b>2,445.0</b>	<b>2,338.9</b>	<b>94.1</b>	<b>471.5</b>	<b>63.3</b>	<b>266.0</b>	<b>199.9</b>	<b>5,878.7</b>	<b>639.5</b>
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,458.2</b>	<b>104.8</b>	<b>517.6</b>	<b>62.1</b>	<b>112.0</b>	<b>196.5</b>	<b>5,735.0</b>	<b>690.8</b>

Movement in Balances 2017/18

	Council Dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus Assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	Service Concession Assets included in Property, Plant & Equipment £m
<b>Cost or Valuation</b>									
<b>At 1 April 2017</b>	<b>2,278.7</b>	<b>2,380.5</b>	<b>190.0</b>	<b>582.9</b>	<b>60.3</b>	<b>6.0</b>	<b>170.7</b>	<b>5,669.1</b>	<b>747.9</b>
Additions	94.1	42.3	6.1	39.0	1.5	0	84.3	267.3	51.3
Assets reclassified between categories	(3.2)	19.1	2.2	9.2	0.3	29.6	(58.2)	(1.0)	
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(45.9)	126.2	0	0	0	103.6	0	183.9	9.1
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	0	11.7	(0.1)	0	0	(7.2)	(0.3)	4.1	4.4
Derecognition - Disposals	(37.9)	(80.3)	(15.1)	(1.6)	0	(19.9)	0	(154.8)	(0.8)
Derecognition - Other	(2.0)	0	0	0	0	0	0	(2.0)	
Assets reclassified (to)/from Held for Sale	0	(13.3)	(4.3)	0	0	0	0	(17.6)	
Other movements in Cost or Valuation	0	0	0	0	0	0	0	0	
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,486.2</b>	<b>178.8</b>	<b>629.5</b>	<b>62.1</b>	<b>112.1</b>	<b>196.5</b>	<b>5,949.0</b>	<b>811.9</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>At 1 April 2017</b>	<b>(124.7)</b>	<b>(27.0)</b>	<b>(73.1)</b>	<b>(89.1)</b>	-	-	-	<b>(313.9)</b>	<b>(93.9)</b>
Depreciation charge	(50.3)	(56.5)	(18.7)	(24.4)	-	(0.2)	-	(150.1)	(30.2)
Depreciation written out to the Revaluation Reserve	173.8	34.9	-	-	-	0.5	-	209.2	2.0
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	12.5	-	-	-	-	-	12.5	0.8
Impairment losses/ (reversals) recognised in the Revaluation Reserve	-	2.6	-	-	-	-	-	2.6	
Impairment losses/ (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	1.8	(0.1)	-	-	-	-	1.7	
Derecognition - Disposals	1.2	3.3	14.3	1.6	-	-	-	20.4	0.2
Derecognition - Other	-	-	-	-	-	-	-	-	
Assets reclassified to/(from) Held for Sale	-	-	3.6	-	-	-	-	3.6	
Other movements in Depreciation and Impairment	-	0.4	-	-	-	(0.4)	-	-	
<b>At 31 March 2018</b>	<b>-</b>	<b>(28.0)</b>	<b>(74.0)</b>	<b>(111.9)</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>	<b>(214.0)</b>	<b>(121.1)</b>
<b>Net Book Value</b>									
<b>At 31 March 2018</b>	<b>2,283.8</b>	<b>2,458.2</b>	<b>104.8</b>	<b>517.6</b>	<b>62.1</b>	<b>112.0</b>	<b>196.5</b>	<b>5,735.0</b>	<b>690.8</b>
<b>At 31 March 2017</b>	<b>2,154.0</b>	<b>2,353.5</b>	<b>116.9</b>	<b>493.8</b>	<b>60.3</b>	<b>6.0</b>	<b>170.7</b>	<b>5,355.2</b>	<b>654.0</b>

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 1 to the Council entity accounts.

## Note G8

### Investment Properties

The Council, Birmingham City PropCo Limited and InReach Limited have non-current assets that meet the criteria for treatment as investment properties. Details of the financial impact of Investment Properties are set out below.

	2017/18 £m	2018/19 £m
<b>Cost or Valuation</b>		
<b>At 1 April</b>	<b>9.8</b>	<b>20.2</b>
Additions	8.9	-
Assets reclassified between categories	-	13.5
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	1.5	10.9
Derecognition - Disposals	-	-
Derecognition - other	-	-
<b>At 31 March</b>	<b>20.2</b>	<b>44.6</b>

Recurring Fair Value Measurement	Input Level in Fair Value Hierarchy	Valuation Technique used to measure Fair Value	Fair Value 31 March 2018 £m	Fair Value 31 March 2019 £m
Highest and Best Use	Level 2	The fair value has been measured using a market approach, taking into account quoted prices for similar assets in active markets and data and market knowledge.	11.3	35.7
Highest and Best Use	Level 3	The fair value has been measured using a market approach taking into account yields from rental compared to similar assets.	8.9	8.9

The fair value of the Council's Group Investment Properties is measured annually at each reporting date. Valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The valuations were undertaken by appropriately qualified valuers as detailed below:

- For the Council, Azmat Mir MRICS, Head of Property Consultancy within the Council's Property Services section
- For InReach (Birmingham) Limited, David Farrow MRICS and Daniel Winter MRICS of Savills (UK) Limited
- For Birmingham City PropCo Limited, Nick Boyd BSc (Hons) FRICS and Ken Hogg BSc (Hons) MRICS of Lambert Smith Hampton

## Note G9

### Financial Instruments

This note sets out the differences from the information contained in Note 39 of the Council entity accounts to enable the reader to determine, more clearly, the impact of group company transactions.

#### Debtors and Cash

Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G10.

#### Creditors

Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G11.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long term creditors are brought into the Group Financial Statements upon group consolidation.

	Long-term	
	31 March 2018	31 March 2019
	£m	£m
<b>Creditors</b>		
NEC 7.56% Loan Stock – maturity 30 September 2027	(73.0)	(73.0)

The basis of the fair value of the loan stock has changed between 31 March 2018 and 31 March 2019. For last year, the fair value of the loan stock was assessed by independent experts and an estimate of its fair value was determined on the basis of a rate payable for a new loan on the same terms. However, for the current year end, a stock market value was available and this has been used as a better indicator of fair value.

Financial Liabilities	Input level in Fair Value Hierarchy	Valuation inputs and assumptions used to measure Fair Value	31 March 2018		31 March 2019	
			Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
NEC Loan Stock	Level 1	Stock Market valuation			73.0	102.6
NEC Loan Stock	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published gilt yields.	73.0	109.1		
<b>TOTAL</b>			<b>73.0</b>	<b>109.1</b>	<b>73.0</b>	<b>102.6</b>

Within the Council entity accounts, the guarantee given to NEC Developments (NECD) for the repayment of the Loan Stock is treated as borrowing and as a reimbursement right within NECD. The guarantee was determined at fair value on the disposal of the NEC in 2015 and is accounted for using the Effective Interest Rate method.



Long Term Borrowing

The reduction in long term borrowing at 31 March 2019 between the Council entity accounts, £2,855.5m and the group accounts, £2,763.8m, 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.

31 March 2018		31 March 2019
£m		£m
78.4	Central government bodies	68.6
12.0	Other local authorities	21.2
6.0	NHS bodies	8.3
3.2	Public corporations and trading funds	2.5
221.9	Other entities and individuals	224.0
<b>321.5</b>	<b>Total</b>	<b>324.6</b>

### **Note G11**

#### **Short Term Creditors**

The table below shows amounts owed by the Council's Group undertakings at the end of the year that are due within 12 months, split by type of organisation.

31 March 2018		31 March 2019
£m		£m
(28.6)	Central government bodies	(26.2)
(11.3)	Other local authorities	(6.7)
(2.0)	NHS bodies	(1.3)
(63.7)	Public corporations and trading funds	(64.1)
(227.7)	Other entities and individuals	(223.1)
<b>(333.3)</b>	<b>Total</b>	<b>(321.4)</b>

## Note G12

### Usable Reserves

Details of the Group's usable reserves are detailed below. The detail for 2017/18 has been restated as the General Fund and Profit and Loss reserves have been brought together into General Unearmarked Reserves which more appropriately reflects the unearmarked reserves of the Group.

31 March 2018 (Restated) £m		31 March 2019 £m
133.7	General Unearmarked Reserves	54.7
320.4	Capital Receipts Reserve	240.4
338.7	Earmarked General Fund Reserves	416.1
4.8	Housing Revenue Account (HRA)	5.4
28.6	Major Repairs Reserve	24.8
107.0	Capital Grants Unapplied	106.7
4.8	Merger Reserve	4.8
<b>938.0</b>	<b>Total</b>	<b>852.9</b>

The major reason for the reduction in the level of General Unearmarked Reserves is as a result of the transfer to Earmarked General Fund Reserves as detailed in Note 18 to the entity accounts and the recognition of the pension fund liability of Birmingham Children's Trust CIC in General Reserves whereas in previous years the pension liability for children's services in the Council would have been reflected in unusable reserves within the Pensions Reserve.

## Note G13

### Unusable Reserves

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

31 March 2018 £m		31 March 2019 £m
1,896.8	Revaluation Reserve	2,081.2
(428.9)	Capital Adjustment Account	(342.7)
(25.9)	Financial Instruments Adjustment Account	(48.1)
41.8	Deferred Capital Receipts	37.7
(2,836.1)	Pensions Reserve	(2,627.6)
18.0	Collection Fund Adjustment Account	10.0
(151.8)	Equal Pay Back Pay Account	(174.5)
(19.9)	Accumulated Absences Account	(14.0)
(0.3)	Available for Sale Financial Instruments Reserve	-
0.7	Called up Share Capital	0.6
<b>(1,505.6)</b>	<b>Total</b>	<b>(1,077.4)</b>

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

### **Revaluation Reserve**

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

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

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

2017/18 £m		2018/19 £m
<b>1,553.2</b>	<b>Balance at 1 April</b>	<b>1,896.8</b>
	<b>Revaluations not posted to (Surplus)/Deficit on the Provision of Services</b>	
592.5	Council: Upward revaluation of assets	461.1
(197.3)	Council: Downward revaluation of assets	(228.5)
-	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	-
<b>395.2</b>	<b>Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the (Surplus)/Deficit on the Provision of Services</b>	<b>232.6</b>
	<b>Amounts written off to the Capital Adjustment Account</b>	
(19.0)	Council: Difference between fair value depreciation and historical cost depreciation	(23.1)
(32.9)	Council: Accumulated gains on assets sold or scrapped	(21.1)
-	Council: Adjustment for transfer of land to Investment Property	-
<b>(51.9)</b>	<b>Council: Amount written off to the Capital Adjustment Account</b>	<b>(44.2)</b>
	<b>Group Movements</b>	
-	Increase in Group's share of revaluation reserve resulting from increased stake in entity	
0.3	Other movements in reserve in Group entities	(4.0)
<b>0.3</b>	<b>Total Group Movements</b>	<b>(4.0)</b>
<b>1,896.8</b>	<b>Balance at 31 March</b>	<b>2,081.2</b>

**Note G14****Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the items set out below.

2017/18	2018/19
£m	£m
(16.1) Interest Received	(27.5)
184.7 Interest Paid	182.0
(6.1) Dividends Received	(5.7)

**Note G15****Cash Flow Statement - Investing Activities**

The cash flows from investing activities are set out below. The detail for 2017/18 has been restated to show the split between the purchase and proceeds from short-term and long-term investments.

2017/18 (Restated)		2018/19
£m		£m
(238.4)	Purchase of property, plant and equipment, investment property and intangible assets	(264.9)
(2,004.2)	Purchase of short-term and long-term investments	(1,077.6)
(0.6)	Investing Activities of Discontinued Operations	-
126.1	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	87.4
2.0	Proceeds from the sale of subsidiary (NEC Group)	-
1,965.2	Proceeds from short-term and long-term investments	1,083.8
0.5	Other receipts from investing activities	53.1
<b>(149.4)</b>	<b>Net cash flows from investing activities</b>	<b>(118.2)</b>

**Note G16****Cash Flow Statement - Financing Activities**

The cash flows from financing activities are set out below.

2017/18		2018/19
£m		£m
95.5	Other receipts from financing activities	126.5
1,554.0	Cash Receipts from short-term and long-term borrowing	1,962.8
(45.9)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(47.4)
(1,287.0)	Repayments of short-term and long-term borrowing	(2,086.6)
-	Other payments for financing activities	(4.9)
<b>316.6</b>	<b>Net cash flows from financing activities</b>	<b>(49.6)</b>

**Note G17****Group Cash Flow Statement – Other Adjustments**

The cash flow adjustments to the net surplus/deficit on the provision of services are set out below.

2017/18		2018/19
£m		£m
150.1	Depreciation/Impairment charge	154.6
8.0	Amortisation of Intangible Assets	8.2
6.5	Derecognition of Available for Sale Assets	-
135.4	Derecognition of Non-Current Assets	78.6
6.1	(Increase)/decrease in Investments	(4.3)
(38.9)	Revaluation of Non-Current Assets	115.5
(91.2)	(Increase)/Decrease in Debtors	13.9
1.2	Increase/(Decrease) in Creditors	(33.5)
-	(Increase)/Decrease in Inventories	(0.1)
25.9	Increase/(Decrease) in Provisions	1.7
(128.2)	Pensions Liability	114.0
<b>74.9</b>		<b>448.6</b>

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

2017/18		2018/19
£m		£m
(95.5)	Capital Grants	(126.5)
(128.6)	Capital Receipts	(140.5)
-	Council Tax and Business Rates Adjustments	4.9
<b>(224.1)</b>		<b>(262.1)</b>

**Note G18****Group Expenditure and Funding by Nature of Activity**

Detail of the Council's Expenditure and Funding by Nature of Activity is provided in Note 9 to the entity accounts.

2017/18 (Restated)		2018/19
£m	Expenditure	£m
1,085.9	Employee Benefits Expenses	1,017.6
1,760.6	Other Service Expenses	1,688.6
158.5	Depreciation, Amortisation and Impairment	268.0
261.4	Interest Payments	274.4
52.9	Precepts and Levies	50.0
6.3	Payments to Housing Capital Receipts Pool	6.3
14.0	Loss on Disposal of Non-Current Assets	5.5
<b>3,339.6</b>	<b>Total Expenditure</b>	<b>3,310.4</b>
	Income	
(636.3)	Fees, Charges and Other Services Income	(591.8)
(737.5)	Income from Council Tax and Business Rates	(762.9)
(1,910.9)	Government Grants and Contributions	(1,909.4)
(20.8)	Interest and Investment Income	(42.4)
<b>(3,305.5)</b>	<b>Total Income</b>	<b>(3,306.5)</b>
<b>34.1</b>	<b>(Surplus)/Deficit on Provision of Services</b>	<b>3.9</b>

**Note G19****Related Parties**

Details of the Council's material transactions with related parties are provided in Note 48 to the Council entity accounts. Details of the subsidiary companies of group entities are detailed in the relevant notes G24 and G25 to these group financial statements.

In addition to the related parties detailed within Note 48 to the Council entity accounts, Birmingham Airport Holdings Limited transacts business with the shareholding West Midlands District Councils with Solihull MBC acting as the lead authority. Transactions would be undertaken in a number of areas and include business rates, planning applications and building control services. All of these transactions are carried out on an arms-length basis at full commercial rate.

Birmingham Airport Limited entered into a lease arrangement with Solihull MBC, on behalf of all the Districts, which has been treated as a finance lease in its accounts by the company. The total amount payable in the year under the arrangement was £0.8m with an amount due at the year-end of £4.7m.

## Note G20

### Leases

#### Group as the lessee

Details of the Council's finance and operating leases are included in Note 42 to the Council entity accounts.

#### Group as the lessor

Within the Group there are leases between Group entities and also leases from Group entities to external organisations. Details of the Council's finance leases are provided in Note 42 to the Council entity accounts. This note sets out the impact of intra-Group leases and leases of Group entities to external organisations.

### Intra-Group Leases

#### Finance leases

The Council was the lessor for premises leased to Innovation Birmingham Group Limited (IBL) prior to its disposal on 18 April 2018. As a group subsidiary entity, these leases are eliminated from the group accounts. The information in the section below provides details of the material leases with group entities, which are to be excluded from the disclosures provided in Note 42 to the Council entity accounts in deriving the group disclosures.

31 March 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	-
7.6	- Non current	-
13.5	Unearned finance income	-
(0.1)	Unguaranteed residual value of property	-
<b>21.0</b>	<b>Gross investment in the lease</b>	<b>-</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Finance lease debtor		Minimum lease payments	
	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than one year	-	-	0.2	-
Later than one year and not later than five years	0.1	-	0.7	-
Later than five years	7.5	-	20.1	-
<b>Total</b>	<b>7.6</b>	<b>-</b>	<b>21.0</b>	<b>-</b>

## Leases by Group entities to External Organisations

### Finance leases

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

The Council created Birmingham City Propco Limited in 2017/18 to provide a vehicle for commercial investment. The company purchased the leasehold interests of the Council in respect of the Crowne Plaza NEC and Hilton Metropole NEC Hotels. Details of the leases are set out below.

31 March 2018 £m		31 March 2019 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.1	- Current	0.1
20.1	- Non current	20.1
47.1	Unearned finance income	46.1
-	Unguaranteed residual value of property	-
<b>67.3</b>	<b>Gross investment in the lease</b>	<b>66.3</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Finance lease debtor		Minimum lease payments	
	31 March 2018 £m	31 March 2019 £m	31 March 2018 £m	31 March 2019 £m
Not later than one year	0.1	0.1	1.0	1.0
Later than one year and not later than five years	0.2	0.2	4.1	4.1
Later than five years	19.9	19.9	62.2	61.2
<b>Total</b>	<b>20.2</b>	<b>20.2</b>	<b>67.3</b>	<b>66.3</b>

### Operating Leases

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

31 March 2018 £m		31 March 2019 £m
0.4	Not later than one year	0.4
1.7	Later than one year and not later than five years	1.7
26.6	Later than five years	26.1
<b>28.7</b>	<b>Gross investment in the lease</b>	<b>28.2</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.



**Note G21****Defined Benefit Pension Schemes**

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 20 and 21 to the Council entity accounts.

**Birmingham Childrens Trust Limited**

Birmingham Children's Trust CIC participates in the West Midlands Pension Fund, a Local Government Pension Scheme. The scheme is a defined benefit scheme, which pays out pensions at retirement based on length of service and final pay for service earned up to 31 March 2014 and on a career pay average for service earned from 1 April 2014.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2018/19 £m
Present value of funded defined benefit obligations	(258.7)
Fair value of plan assets	182.4
<b>Net (Liability)/Asset</b>	<b>(76.3)</b>

## Movements in the present value of defined benefit obligation:

	2018/19 £m
Balance at beginning of period	-
Transfer on creation of Trust	231.2
Current service cost	20.0
Interest cost	6.0
Change in financial assumptions	13.1
Change in demographic assumptions	(13.9)
Contributions by scheme members	3.0
Curtailment	
Benefits paid	(0.7)
<b>31 March</b>	<b>258.7</b>

## Movements in the fair value of plan assets:

	2018/19 £m
Balance at beginning of period	
Transfer on creation of Trust	155.5
Return on assets (less interest)	8.8
Interest on assets	4.2
Administrative expenses	(0.1)
Settlement prices received/(paid)	11.7
Contributions by scheme members	3.0
Benefits paid	(0.7)
<b>31 March</b>	<b>182.4</b>

Expense recognised in the profit and loss account:

	2018/19 £m
<b>Operating Costs:</b>	
Current Service Cost	8.3
Administrative Expenses	0.1
Included in Operating Cost	<u>8.4</u>
<b>Financing Costs:</b>	
Interest cost on pension scheme liabilities	6.0
Interest income on plan assets	(4.2)
Net interest cost	<u>1.8</u>
<b>Total Income Statement expense</b>	<b><u>10.2</u></b>

### Other Comprehensive Income

The amounts recognised in the Trust's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2018/19 £m
Return on plan assets in excess of interest income	-
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	13.0
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	(13.9)
Actuarial gain/(loss) on liabilities due to experience	(8.8)
<b>Remeasurement gain/(loss) recognised during the period</b>	<b><u>(9.7)</u></b>

The fair value of the plan assets and the return on those assets were as follows:

	2018/19 Fair Value	
	£m	%
Equities	105.6	58
Government Bonds	13.7	8
Other Bonds	7.0	4
Property	16.3	9
Cash/Liquidity	9.5	5
Other	30.3	16
<b>Total</b>	<b>182.4</b>	<b>100</b>

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2018/19 %
Discount rate	2.45
Future salary increases	3.85
Future pension increases	2.35
CPI increases	2.35

In valuing the liabilities of the pension fund at 31 March 2019, mortality assumptions have been made as indicated below.

The life expectancy for members as at the Balance Sheet date:

	31 March 2019
Male: member aged 65 (current life expectancy)	20.9
Female: member aged 65 (current life expectancy)	23.2
Male: member aged 45 (life expectancy at age 65)	22.6
Female: member aged 45 (life expectancy at age 65)	25.0

The valuation of the defined benefit obligation and the impact on current service cost are sensitive to a number of factors. Details of the impact of changes to relevant factors are set out below.

	Impact of Change Defined Benefit Obligation	Current Service Cost
	£m	£m
An increase in the discount rate of 0.1%	(6.6)	(0.5)
An increase in long term salary estimate of 0.1%	1.3	-
An increase in the rate of pension increases of 0.1%	5.5	0.5
An increase in anticipated life expectancy of 1 year	8.4	0.6

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. The ruling may have implications for the Local Government Pension Scheme which also moved from a final salary to a career average salary scheme.

The Government Actuary's Department is currently undertaking a scheme level review for England and Wales to assess the impact on the Local Government Pension Scheme in respect of the potential impact on scheme liabilities and service cost.

Any outcome of the review may impact on future contribution rates that the Council will need to make to the pension fund.

PETPS (Birmingham) Limited

Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The most recently completed formal actuarial valuations of the Fund and the Scheme were at 5 April 2016. The funding requirements are based on the Statements of Funding Principles of the Fund and the Scheme. The funding is based on a separate actuarial valuation for funding purposes, for which assumptions may differ from the assumptions set out in these disclosures. The defined benefit obligations are measured using the projected unit method and discounted at the rate of return on high quality corporate bonds of equivalent term.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Comparative figures for 2017/18 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in the PETPS' Balance Sheet and so consolidated into the Group Balance Sheet. The fair value of plan assets has been restated as at 31 March 2018 to reflect the confirmed year-end valuation. The fair value of plan assets has been increased by £0.2m, and the retirement benefit obligation reduced by the same amount.

	31 March 2018 (Restated)	31 March 2019
	£m	£m
Present value of funded obligations	(200.5)	(206.8)
Fair value of plan assets	183.0	190.2
Deficit for funded plans	(17.5)	(16.6)
Unrecognised asset due to the asset ceiling	-	-
<b>Retirement Benefit Obligation</b>	<b>(17.5)</b>	<b>(16.6)</b>

Income Statement

The amounts recognised in PETPS' Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

	2017/18 £m	2018/19 £m
<b>Operating Costs:</b>		
Administration Expenses	0.9	0.7
Past Service Cost	-	0.8
Included in Operating Cost	0.9	1.5
<b>Financing Costs:</b>		
Interest cost on pension scheme liabilities	5.1	4.9
Interest income on plan assets	(4.6)	(4.5)
Net interest cost	0.5	0.4
<b>Total income statement expense</b>	<b>1.4</b>	<b>1.9</b>

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows. The figures for 2017/18 have been restated to reflect an increase in the return on plan assets in excess of interest income by £0.2m.

	2017/18 (Restated) £m	2018/19 £m
Return on plan assets in excess of interest income	1.1	5.4
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	1.9	(10.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.6	4.0
Actuarial gain/(loss) on liabilities due to experience	(0.9)	(1.3)
<b>Remeasurement gain/(loss) recognised during the period</b>	<b>2.7</b>	<b>(2.1)</b>

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2017/18 £m	2018/19 £m
Beginning of Period	(206.6)	(200.5)
Past Service Cost	-	(0.8)
Interest Cost	(5.1)	(4.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	1.9	(10.2)
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.6	4.0
Actuarial gain/(loss) on liabilities due to experience	(0.9)	(1.3)
Benefits Paid	9.5	7.0
<b>Present value of obligation at 31 March</b>	<b>(200.5)</b>	<b>(206.7)</b>

Movements in the fair value of plan assets are as follows:

	2017/18 (Restated) £m	2018/19 £m
Beginning of Period	184.3	183.0
Interest income on plan assets	4.5	4.6
Return on plan assets in excess on interest income	1.1	5.4
Contributions by employer	3.5	4.9
Administration expenses paid	(0.9)	(0.7)
Benefits paid	(9.5)	(7.0)
<b>Fair value of plan assets at 31 March</b>	<b>183.0</b>	<b>190.2</b>

Movements in the reimbursement right are as follows:

	2017/18 (Restated) £m	2018/19 £m
Surplus/(Deficit) at start of year	(22.3)	(17.5)
Expense (charge)/credit	(1.5)	(1.9)
Employer contributions	3.5	4.9
Remeasurement gain/(loss) in Other Comprehensive Income	2.5	(2.1)
<b>Surplus/(Deficit) at end of year</b>	<b>(17.7)</b>	<b>(16.6)</b>

### Plan Assets

The major categories of plan assets are as follows:

	31 March 2018		31 March 2019	
	£m	%	£m	%
Equities, GTAA and hedge funds	87.1	48	76.7	40
Bonds and Cash	72.9	40	89.6	47
Property	16.4	9	16.9	9
Gilts	6.6	3	7.0	4
	<b>183.0</b>	<b>100</b>	<b>190.2</b>	<b>100</b>

### Assumptions

The principal assumptions made by the actuary were:

	31 March 2018 %	31 March 2019 %
Discount rate – Fund/Scheme	2.50	2.4/2.35
RPI Inflation rate	3.15	3.25
CPI Inflation rate	2.15	2.35
Future Pension increases		
- pension accrued prior to 5 April 2005	3.00	3.1
- pension accrued after 5 April 2005	2.05	2.1

The base mortality assumptions for the Fund are based on SAPS tables (S2 series). Adjustments were applied to reflect the Scheme's populations with future improvements based on the CMI 2018 projection with a long term rate of improvement of 1.25% p.a. (2017/18: 1.25%).

The life expectancy for members as at the Balance Sheet date:

	31 March 2018		31 March 2019	
	Years		Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.1	24.5	21.6	24.0
Female: member aged 65 (current life expectancy)	24.6	26.8	24.2	26.4
Male: member aged 45 (life expectancy at age 65)	23.0	25.9	22.5	25.4
Female: member aged 45 (life expectancy at age 65)	26.2	28.3	25.7	27.8

### Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £10.7m

An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £9.0m

An increase of one year to life expectancy would increase the retirement benefit obligations by £9.0m

The duration of the NEC Limited Pension liabilities is around 22 years, and the duration of the NEC Executive Pension Scheme liabilities is around 15 years.

### Expected Contributions for 2018/19

The contribution schedule in force sets out contributions of £3.5m that will be paid into the Fund and £0.1m that will be paid into the Scheme in the 2018/19 financial year. The contribution into the Fund is expected to be paid from the Asset Backed Funding arrangement that was put in place in 2017.

Acivico Limited Group

The Company's subsidiary companies participate in the West Midlands Pension Fund, a Local Government Pension Scheme.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2017/18 £m	2018/19 £m
Present value of funded defined benefit obligations	(87.0)	(89.4)
Fair value of plan assets	77.7	79.3
<b>Net (Liability)/Asset</b>	<b>(9.3)</b>	<b>(10.1)</b>

Movements in the present value of defined benefit obligation:

	2017/18 £m	2018/19 £m
Balance at beginning of period	85.1	87.0
Current service cost	3.2	2.8
Interest cost	2.4	2.2
Actuarial (gains)/losses	(3.0)	(0.8)
Contributions by members	0.6	0.5
Curtailment	0.3	0.6
Benefits paid	(1.6)	(2.9)
<b>31 March</b>	<b>87.0</b>	<b>89.4</b>

Movements in the fair value of plan assets:

	2017/18 £m	2018/19 £m
Balance at beginning of period	77.3	77.7
Return on assets (less interest)		
Interest on assets	2.1	2.0
Actuarial (losses)/gains	(2.1)	0.8
Contributions	1.9	1.6
Benefits paid	(1.6)	(2.8)
<b>31 March</b>	<b>77.7</b>	<b>79.3</b>

Expense recognised in the profit and loss account:

	2017/18 £m	2018/19 £m
<b>Operating Costs:</b>		
Current Service Cost	3.5	2.8
Included in Operating Cost	3.5	2.8
<b>Financing Costs:</b>		
Interest cost on pension scheme liabilities	2.4	2.2
Interest income on plan assets	(2.1)	(2.0)
Net interest cost	0.3	0.2
<b>Total income statement expense</b>	<b>3.8</b>	<b>3.0</b>



Other Comprehensive Income

The amounts recognised in Acivico's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2017/18 £m	2018/19 £m
Actuarial (gain)/loss on liabilities	(3.0)	(0.8)
(Gain)/loss on settlement or curtailment	-	-
Actuarial (gain)/loss on plan assets	2.1	(0.8)
<b>Remeasurement (gain)/loss recognised during the period</b>	<b>(0.9)</b>	<b>(1.6)</b>

The fair value of the plan assets and the return on those assets were as follows:

	2017/18 Fair Value		2018/19 Fair Value	
	£m	%	£m	%
Equities	49.6	64	46.9	59
Government Bonds	5.7	7	7.7	10
Other Bonds	3.0	4	3.0	4
Property	6.0	8	6.7	8
Cash/Liquidity	1.9	2	2.5	3
Other	11.5	15	12.5	16
<b>Total</b>	<b>77.7</b>	<b>100</b>	<b>79.3</b>	<b>100</b>

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2017/18 %	2018/19 %
Discount rate	2.6	2.4
Future salary increases	3.8	3.9
Future pension increases	2.3	2.4
CPI increases	2.3	2.4

In valuing the liabilities of the pension fund at 31 March 2019, mortality assumptions have been made as indicated below.

The life expectancy for members as at the balance sheet date:

	31 March 2018	31 March 2019
Male: member aged 65 (current life expectancy)	21.9	20.9
Female: member aged 65 (current life expectancy)	24.3	23.2
Male: member aged 45 (life expectancy at age 65)	24.0	22.6
Female: member aged 45 (life expectancy at age 65)	26.6	25.0

The valuation of the defined benefit obligation is sensitive to the assumption adopted for the discount rate. The effect of a 0.1% increase in the discount rate is set out below

	£m
Effect on service cost	2.7
Effect on defined benefit obligation	87.7

A ruling has been made regarding age discrimination arising from public sector pension scheme transition arrangements put in place when moving from final salary to average

salary scheme arrangements. Court of Appeal judgements were made in cases affecting judges' pensions (the McCloud Judgement) and firefighter pensions. The ruling may have implications for the Local Government Pension Scheme which also moved from a final salary to a career average salary scheme.

The Government Actuary's Department is currently undertaking a scheme level review for England and Wales to assess the impact on the Local Government Pension Scheme in respect of the potential impact on scheme liabilities and service cost.

Any outcome of the review may impact on future contribution rates that the Council will need to make to the pension fund.

## 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. The detail for 2017/18 has been restated to reflect the elimination of Birmingham Museums Trust Limited and Performances Birmingham Limited from the Group Accounts as detailed in Note G3.

	General Fund Balance £m	Housing Revenue Account (HRA) £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Council Reserves £m	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £m	Total Group Reserves £m
<b>2017/18 (Restated)</b>										
Provision of goods and services to subsidiaries	3.2					3.2		3.2	(3.2)	-
Purchases of goods and services from subsidiaries	(21.1)					(21.1)		(21.1)	21.1	-
<b>Total adjustments between Group accounts and Council accounts</b>	<b>(17.9)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17.9)</b>	<b>-</b>	<b>(17.9)</b>	<b>17.9</b>	<b>-</b>
<b>2018/19</b>										
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	-
<b>Total adjustments between Group accounts and Council accounts</b>	<b>(204.8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(204.8)</b>	<b>-</b>	<b>(204.8)</b>	<b>204.8</b>	<b>-</b>

**Note G23****Analysis of Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet**

Detailed below is the analysis of Group Balance Sheet movements.

2017/18			2018/19		
Council £m	Minority Interests £m	Total £m	Council £m	Minority interests £m	Total £m
34.1	-	34.1	3.9	-	3.9
		(Surplus)/Deficit on the provision of services			
(4.5)	-	(4.5)	(1.1)	-	(1.1)
		Share of Associates			
(547.8)	-	(547.8)	(346.0)	-	(346.0)
		Other Comprehensive (Income)/Expenditure			
<b>(518.2)</b>	<b>-</b>	<b>(518.2)</b>	<b>(343.2)</b>	<b>-</b>	<b>(343.2)</b>
		<b>Total Comprehensive (Income)Expenditure</b>			
-	-	-	0.1	-	0.1
		(Increase)/Decrease in Equity			
<b>(518.2)</b>	<b>-</b>	<b>(518.2)</b>	<b>(343.1)</b>	<b>-</b>	<b>(343.1)</b>
		<b>Total movement in Balance Sheet</b>			

**Note G24****Subsidiary Companies****I. Acivico Limited**

Acivico Limited is a registered company, which is wholly owned by the Council. The company was launched in April 2012, with three special purpose vehicles: one holding company and two trading companies. The two trading companies, Acivico (Design Construction and Facilities Management) Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to the Council and to other public and private sector clients. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The Council issued a letter of assurance to the company, in December 2018, to ensure that it was able to meet its liabilities as they fell due as detailed in Note 33 of the entity accounts.

The year-end of the company is 31 March and for the purposes of consolidation the accounts for the period to 31 March 2019 have been used, as amended for alignment of accounting policies and the guarantee given by the Council.

	2017/18 £m	2018/19 £m
Total Comprehensive Income for the Year	(4.6)	4.5
Net Assets/(Liabilities) at the year-end	(12.2)	(7.7)

There was no qualification to the audit opinion on the last audited accounts of the group. Information regarding transactions during the year and balances held at the year-end between the Council and Acivico Limited Group can be found within Note 48 of the Council entity accounts.

## II. Birmingham Children's Trust CIC

Birmingham Children's Trust CIC was incorporated on 17 May 2017 and became independently operational on 1 April 2018. The Council is sole member of the company. However, as the company is an asset locked entity, the Council has no entitlement to any assets of the company. For the purposes of consolidation, the Council has used the Trust's outturn for 2018/19, as amended for alignment of accounting policies. Details of the outturn, before elimination of intra-group transactions, are set out below.

	2018/19 £m
<b>Comprehensive Income and Expenditure</b>	
Turnover	202.0
Other Income	8.9
Administrative Expenses	(213.4)
<b>Operating Profit/(Loss)</b>	<b>(2.5)</b>
Interest Receivable	4.4
Interest Payable	(6.1)
<b>Profit/(Loss) for the Year</b>	<b>(4.2)</b>
Other Comprehensive Income	
Actuarial Gain/(Loss) on defined benefit scheme	(66.1)
<b>Total Comprehensive Income for the Year</b>	<b>(70.3)</b>
<b>Balance Sheet</b>	
Debtors	8.5
Short Term Investments	27.0
Cash and Cash Equivalents	0.3
<b>Total Current Assets</b>	<b>35.8</b>
Creditors due within one year	(25.8)
<b>Net Current Assets</b>	<b>10.0</b>
Long Term Borrowing	(4.0)
Pension Liabilities	(76.3)
<b>Total Assets/(Liabilities)</b>	<b>(70.3)</b>
Reserves	(70.3)
<b>Total Reserves</b>	<b>(70.3)</b>

Whilst the company is showing net pension liabilities on an IAS19, *Employee Benefits* basis, in line with IFRS reporting, the latest actuarial valuation of the Trust's defined benefit scheme on an ongoing funding basis shows that the Trust is showing a surplus of £28.0m.

## II. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million, at 7.5625%, by the company and is guaranteed by the Council and which is due for repayment in 2027.

The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The Council has zero coupon loan notes totalling £0.1m (2017/18: £0.4m). The loan notes are repayable in instalments and repayments commenced in 2013/14. The position at the year end is detailed below.

	2017/18	2018/19
	£m	£m
Profit/(Loss) for the year	(1.0)	(1.0)
Net Assets/(Liabilities) at the year-end	8.4	7.7

The year end of the company is 31 March 2019. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

The Council continues to retain ownership of NEC (Developments) Plc.

## III. Innovation Birmingham Limited

Innovation Birmingham Limited, a company limited by guarantee with the Council as sole member, was created with the aim of promoting, encouraging and securing the development and management of a science park in Birmingham. During the 2018/19 financial year, until disposal on 18 April 2018, the Council was entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council was exercised through its 71% share of directors' voting rights. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and, as such, dividends.

The group accounts incorporated:

- Birmingham Technology (Property) Limited – with shareholding of 87.5% held by Innovation Birmingham Limited and 12.5% by the Council
- Birmingham Technology (Property One) Limited – wholly owned by Birmingham Technology (Property) Limited
- Birmingham Technology (Venture Capital) Limited – with shareholding of 90.9% held by Innovation Birmingham Limited and 9.1% by the Council

The Council had made the decision to dispose of its interests in the company and its subsidiaries to a third party to ensure its continued development. The company was therefore treated as an Asset Held for Sale in the 2017/18 Group financial statements. The assets of the company were disposed of on 18 April 2018.

The reported position at the year end is detailed below.

	2017/18	2018/19
	£m	£m
Profit/(Loss) for the-year	(0.6)	-
Net Assets/(Liabilities) at the year-end	1.8	-

Information regarding transactions during the year and balances held at the year-end between the Council and Innovation Birmingham Limited can be found within Note 48 of the Council entity accounts.

## V. PETPS (Birmingham) Limited

PETPS (Birmingham) Limited, a company limited by guarantee, was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

	2017/18	2018/19
	£m	£m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2019 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Limited can be found within Note 48 of the Council entity accounts.

## VI. PETPS (Birmingham) Pension Funding Scottish Limited Partnership

PETPS (Birmingham) Pension Funding Scottish Limited Partnership (SLP) was formed by PETPS (Birmingham) Capital Limited (PETPS Capital) and PETPS (Birmingham) General Partner Limited (PETPS General), which are both wholly owned subsidiaries of the Council.

The arrangement has been created in 2017/18 to enable the Council to manage the funding implications of its guarantee in respect of the pensions from the NEC Group Limited following its disposal. The Council has invested equity in PETPS Capital which it has subsequently invested in SLP. The rights of the investment in SLP have been assigned to the NEC Pension Fund Trustees whilst the pension fund is in deficit. At 31 March 2019, the level of investment in SLP that is currently assigned to the NEC Pension Fund Trustees was £10.6m (31 March 2018: £13.9m).

At 31 March 2019, there were nominal balances in PETPS Capital and PETPS General with the major transactions in SLP.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the year	-	-
Net Assets/(Liabilities) at the year-end	-	-

The year-end of the company is 31 March 2019 and for the purposes of consolidation these accounts have been used. Advantage has been taken of the exemption not to produce partnership accounts under regulation 7 of The Partnerships (Accounts) Regulations 2008 as the financial information for the partnership has been consolidated into these group accounts.

Information regarding transactions during the year and balances held at the year-end between the Council and PETPS (Birmingham) Pension Funding Scottish Limited Partnership can be found within Note 48 of the Council entity accounts.

## VII. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, in 2015/16 to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The company completed its building programme of 92 flats and 53 car parking spaces in July 2018 with the first occupant taking up residence in August 2018. Currently, the company has achieved in excess of 93% occupancy of its flats.

Throughout the whole of the reporting periods considered in these financial statements, the Council has held 100% of the £2,000,100 share capital of the company.

	2017/18 £m	2018/19 £m
Operating Profit/(Loss) for the year	(0.5)	-
Change in value of Investment Property	-	9.5
Total Comprehensive Income for the Year	(0.5)	9.5
Net Assets/(Liabilities) at the year-end	1.3	10.8

The year end of the company is 31 March and for the purposes of consolidation the draft accounts for the 12 month period ending 31 March 2019 have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

## VIII. Birmingham City Propco Limited

The Council set up Birmingham City Propco Limited, a wholly owned subsidiary of the Council, in 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. The company has been consolidated into the Council's Group Financial Statements for the first time in 2018/19.

	2017/18 £m	2018/19 £m
Profit/(Loss) for the year	(0.6)	0.1
Net Assets/(Liabilities) at the year-end	8.9	9.0

The year-end of the company is 31 March. The company has opted to produce its first financial statements as at 31 March 2019 and for the purposes of consolidation, the company's latest management accounts have been used as there were few transactions in the year other than the purchase of the leasehold interests.

Information regarding transactions during the year and balances held at the year-end between the Council and Birmingham City Propco Limited can be found within Note 48 of the Council entity accounts.

## **Note G25**

### **Associate and Joint Venture**

The associate that has been consolidated into the Group Financial Statements is listed below.

#### **I. Birmingham Airport Holdings Limited**

The seven West Midlands District Councils together own 49% of Birmingham Airport Holdings Limited (BAH) (the Council holds 18.68% of the total shareholding). The remaining shares of the company are held by Airport Group Investments Limited, 48.25%, and by the Employee Share Ownership Plan, 2.75%. The Shareholders' Agreement provides for the District Councils to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (the Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Air Traffic Limited;
- Birmingham Airport Developments Limited;
- Birmingham Airport (Finance) Plc;
- Birmingham Airport Operations Limited;
- Birmingham Airport Services Limited;
- BHX Fire and Rescue Limited;
- BHX (Scotland) Limited;
- BHX Limited Partnership;
- Euro-Hub (Birmingham) Limited; and
- First Castle Developments Limited.

The principal activity of the group is the operation and management of Birmingham Airport and the provision of facilities and services associated with those operations.

The year-end of the company is 31 March 2019. For the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

BAH is accounted for as an associate for the following reasons:



- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.68% within this 49% it is considered that the Council has greater power to influence the voting of the block;
- 25% of the BAH Board of Directors (4 of 16) are Council officers or councillors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

31 March 2018		31 March 2019
£m		£m
465.6	Non-Current Assets	467.7
68.7	Current Assets	152.5
(76.3)	Current Liabilities	(73.9)
(348.1)	Non-Current Liabilities	(439.4)
109.9	Net Assets	106.9
<b>20.5</b>	<b>Council Interest in Net Assets @ 18.68%</b>	<b>20.0</b>
<b>155.5</b>	<b>Revenue</b>	<b>160.8</b>
26.4	Post-Tax Profit/(Loss)	25.6
9.1	Other Comprehensive Income/(Expenditure)	(3.0)
35.5	Total Comprehensive Income/(Expenditure)	22.6
<b>6.6</b>	<b>Council Interest in Total Comprehensive Income/(Expenditure) @ 18.68%</b>	<b>4.2</b>

The carrying value of the Council's interest in this entity is £20.0m (2017/18: £20.5m), which is included within Investments in Associates and Joint Ventures in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2019 has disclosed four existing contingent liabilities within its financial statements:

- On 13 February 2001 guarantees were provided by Birmingham Airport Holdings Limited, Birmingham Airport Limited and Euro-hub (Birmingham) Limited in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) Plc. The bond is for a period of 20 years maturing on 22 February 2021 and carries a fixed interest rate of 6.25% per annum;
- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of 15 years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum.

annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;
- On 19 January 2019 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc and Lloyds Bank Plc in support of a £50m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 16 January 2024, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility was £nil.
- On 24 January 2019, the company, along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £90m private placement senior notes issued by Birmingham Airport (Finance) Plc on 24 January 2019. The senior notes are for a period of 30 years maturing on 24 January 2049 and carry a fixed interest rate of 3.21% per annum.

The joint venture that has been consolidated into the Group Financial Statements is listed below.

## **II. Paradise Circus Limited Partnership**

Paradise Circus Limited Partnership (the partnership) is a joint venture arrangement between the Council, BriTel Funds Trustees Limited (BriTel) and Paradise Circus General Partner Limited, which is itself formed through a partnership of the Council and BriTel. The Council and BriTel share control of the joint venture on a 50/50 basis.

The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims, generating economic growth and job creation through the regeneration of the area. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015.

The year-end of the company was 30 June 2018. For the purposes of consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2019. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2018 £m		31 March 2019 £m
6.8	Non-Current Assets	17.7
22.2	Current Assets	14.3
(4.0)	Current Liabilities	(4.9)
(28.2)	Non-Current Liabilities	(37.4)
(3.2)	Net Assets/(Liabilities)	(10.3)
<b>(1.6)</b>	<b>Council Interest in Net Liabilities @ 50%</b>	<b>(5.2)</b>
<b>12.4</b>	<b>Revenue</b>	
(1.4)	Post-Tax Profit/(Loss)	(7.1)
-	Other Comprehensive Income/(Expenditure)	-
(1.4)	Total Comprehensive Income/(Expenditure)	(7.1)
<b>(0.7)</b>	<b>Council Interest in Total Comprehensive Income/(Expenditure) @ 50%</b>	<b>(3.6)</b>

The carrying value of the Council's interest in this entity is a net deficit of £5.2m (2017/18: £1.6m deficit), which is included within the current liabilities in the Group Balance Sheet.



## Draft Annual Governance Statement 2018/19

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**Annual Governance Statement 2018/19****1 Scope of responsibility**

- 1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.
- 1.3. The Council operates a governance framework which is consistent with the principles of the *Delivering Good Governance in Local Government: Framework* (CIPFA/Solace 2016). This statement explains how the Council has complied with the framework and also meets the requirements of *The Accounts and Audit Regulations 2015*, Regulation 6(1)(a), which requires an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts and, Regulation 6(1)(b), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

**2 The purpose of the governance framework**

- 2.1. The Council as a whole is committed to good governance and to improving governance on a continuous basis through a process of evaluation and review.
- 2.2. Good governance for the Council is ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner and the Council seeks to achieve its objectives while acting in the public interest at all times.
- 2.3. The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities and through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of high quality services and value for money.
- 2.4. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 2.5. The governance framework has been in place at the Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

### 3 The governance framework

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

#### The Council's vision and priorities for Birmingham

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

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

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

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

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

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

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

- 3.8. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required

by the Best Value duty. Achievement of value for money is part of the Council's long term financial strategy.

- 3.9. The Financial Plan 2018+ was developed to align with the Council's Delivery Plan. The Council continues to face significant funding reductions and challenges in achieving its budget plans, outlined in the Council Plan and Budget 2018+.
- 3.10. A robust system to monitor the achievement of savings proposals and scrutiny by Council Management Team (CMT), Budget Board and Cabinet is in place and regularly undertook actions throughout the financial year to control spend. During 2018/19, the Council has over-hauled and strengthened its financial planning and control framework and reasserted 'grip' of the financial position with a series of interventions that have enabled the Council to manage out a £28m in-year pressure since the May 2018 election. Where pressures were identified, Directors were required to find alternative solutions and actions to contain spending within cash limits.
- 3.11. Over the last three years both the Birmingham Independent Improvement Panel (BIIP) and the statutory auditors of the Council have recognised the risks and pressures facing the Council as it looks to become financial sustainable. In response, the Council has sought to ensure that there are robust financial arrangements in place, recognising that it cannot continue to use reserves to balance the budget in the way that it has in the past. Nevertheless, it will continue to hold an element of its reserves as a contingency funding in case of savings delivery difficulties.
- 3.12. The Council's workforce has experienced many changes and challenges as the workforce is modernised. From transforming the customer service function and developing a Citizen Access Strategy to facing some of the challenges driven by being a large employer such as equal pay cases and reviews of terms and conditions, it is recognised the workforce has been facing change over the last 10 years.
- 3.13. External reviews, including the '*Kerslake Review*', highlighted many areas for improvement – much of which the Council already knew about itself – including the lack of a corporate strategic picture and therefore workforce reductions which were not focused in terms of delivering savings.
- 3.14. As the vision for the future priorities is now clearer, the workforce and employment model needs to be reshaped to ensure that the Council is fit for that future through the Council's Workforce Strategy, agreed by Cabinet in 2018. The strategy will guide a much stronger approach to staff engagement, empowerment and culture change.
- 3.15. The Council's planning framework is set in the context of the wider city leadership and governance, such as the West Midlands Combined Authority's (WMCA) Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the WMCA) and the Birmingham and Solihull Sustainability and Transformation Plan (to deliver better health and care for local people).
- 3.16. The Council has a strong public, third sector, and business engagement role. A new Community Cohesion Strategy has been launched and there is an established partnership toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets.

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- 3.17. Working with partners, the Council plays a strategic role for the Greater Birmingham area, working with the Greater Birmingham and Solihull Local Enterprise Partnership (LEP) and where applicable, jointly and in consultation with the West Midlands Combined Authority. As Accountable Body and partner to the LEP, the council develops collaborative solutions to common problems, and facilitates coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects are delivered within the LEP Assurance Framework, approved by the Council's governance processes as Accountable Body, managed and monitored through Programme Delivery Board and thematic Pillar Boards, with regular reporting to the LEP Board.
- 3.18. Change across local government continues. A Mayor was elected on 6 May 2017 to head the West Midlands Combined Authority (WMCA). The WMCA uses devolved powers from central government to allow the Council, along with its regional counterparts, to drive economic growth, investment and the reform of public services. There will be continued innovative ways of delivering local services and for people to engage in their local community, such as through the local council for Sutton Coldfield.
- 3.19. The Cabinet Committee - Group Company Governance, works to improve the level of Council oversight of the activities of those companies that it either wholly owns, or in which it has an interest or a relationship through nominees.
- 3.20. In May 2016, the Council announced its intention to move towards a Children's Trust. The Trust is a wholly owned company of the Council and works in close partnership to continue to improve outcomes for disadvantaged children and young people in the City. In April 2018, the Children's Trust became operationally independent of the Council as part of an ongoing process of improvement.
- 3.21. The Council's Constitution, which is reviewed annually by the Monitoring Officer with amendments agreed at the Annual General Meeting, is available on the Council's website. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).
- 3.22. The Council facilitates policy and decision-making via an Executive Structure. There were ten members of Cabinet for the 2018/19 financial year: the Leader, Deputy Leader and eight other Cabinet Members with the following portfolios:
- Cabinet Member – Children's Wellbeing;
  - Cabinet Member – Clean Streets, Waste and Recycling;
  - 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.



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- 3.23. The Constitution sets out the terms of reference or function for each of the Committees and signposts to a schedule of matters reserved for decision by Full Council.
- 3.24. The CBMC has responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters.
- 3.25. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.
- 3.26. CBMC also discharges the Council's functions in relation to parishes and parish councils.
- 3.27. The purpose of the Audit Committee is to support the Council's Corporate Governance responsibilities and to provide independent assurance to the Council in relation to internal control, risk management and governance. The role of the Audit Committee includes active involvement in the review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts and to review and make recommendations to the executive regarding the effectiveness of internal audit on the Council's arrangements for deterring, preventing, detecting and investigating fraud.

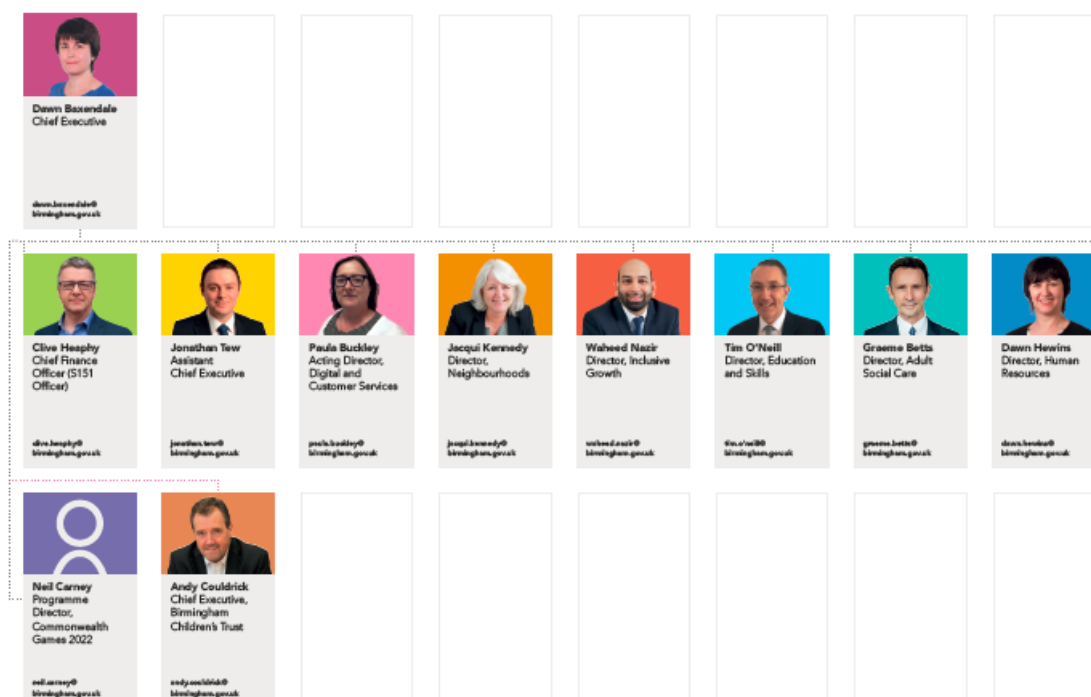
#### Roles, Values and Standards of Conduct and Behaviour of Members and Officers

- 3.28. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice.
- 3.29. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Corporate Directors.
- 3.30. The Council has Codes of Conduct for both Members and Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received.

#### Management Structure

- 3.31. Until 21 January 2019, the Council operated through six Directorates, Adult Social Care and Health, Children and Young People, Economy, Finance and Governance, Place and Strategic Services with an HR directorate from July 2018.
- 3.32. A senior management restructure took place in 2018/19 resulting in revised directorate names and responsibilities with effect from 21 January 2019.

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



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

- Dawn Baxendale was appointed as permanent Chief Executive and started with the Council on 1 April 2018.
- Dr Tim O'Neill was appointed as Director – Education and Skills
- Angela Probert left the Council on 15 February 2019 and the post of Chief Operating Officer was deleted.

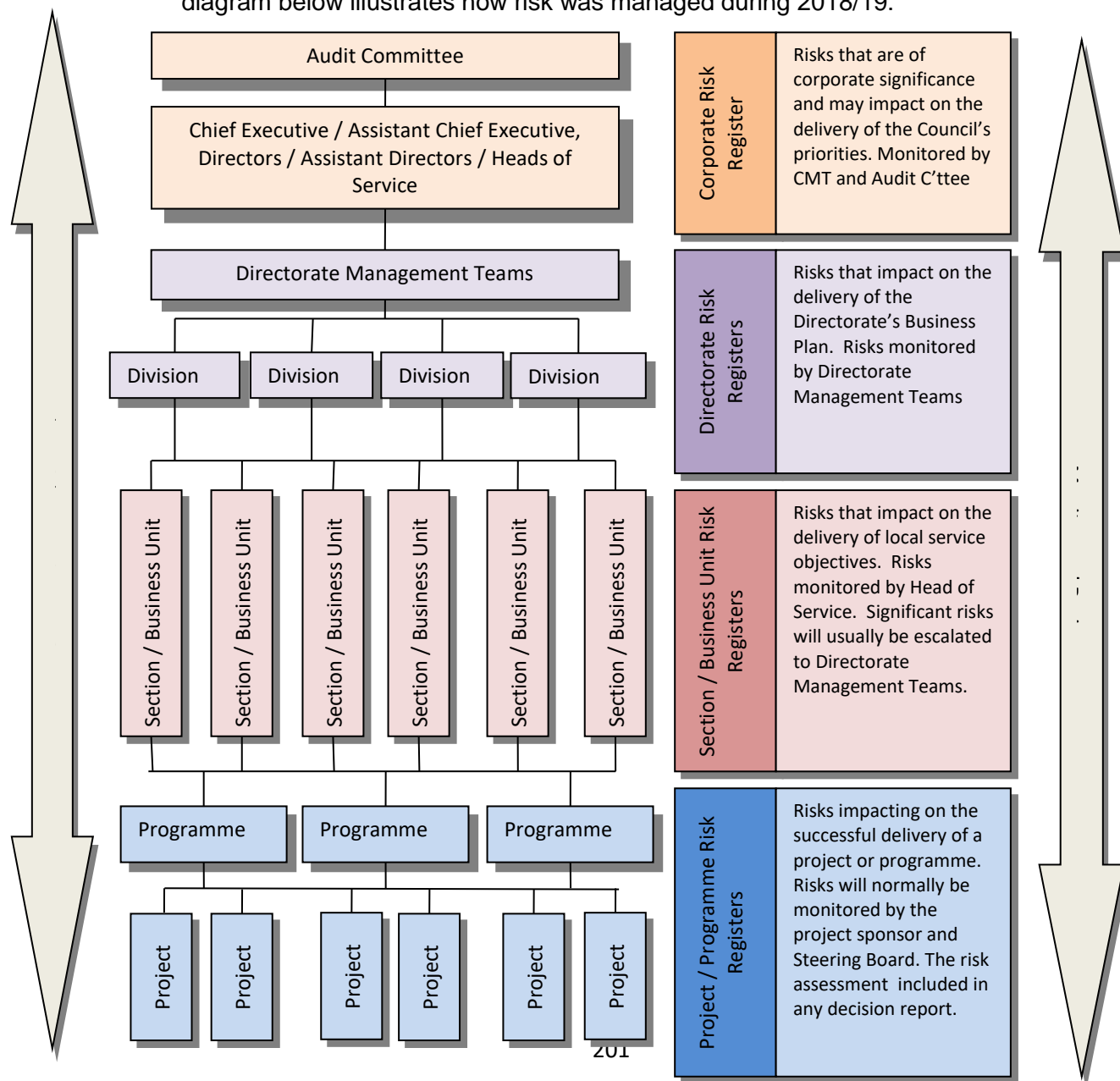
#### Financial Management Arrangements

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

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

### Scrutiny, Accountability and Risk Management

- 3.36. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.
- 3.37. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Such enquiries are actively tracked through the process and independently reviewed and where appropriate, actions taken to improve service delivery.
- 3.38. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet and Cabinet Members are required to include governance information relating to: Council policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.
- 3.39. Risk management continues to be embedded within the Council. The schematic diagram below illustrates how risk was managed during 2018/19:



- 3.40. The Risk Management Framework is available on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported to the Audit Committee three times per year. CMT identifies new risks to the Council, and the draft Corporate Risk Register update is reported to it monthly. CMT challenge the updated information provided, and recommend re-wording or deletion of risks as appropriate. In addition business plans at directorate and divisional level include key risks.
- 3.41. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's systems. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery.
- 3.42. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with external audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

#### Birmingham Independent Improvement Panel (BIIP)

- 3.43. Following Lord Kerslake's review of the Council's corporate governance (published in December 2014), the Birmingham Independent Improvement Panel (BIIP) was set up in January 2015. The Council and BIIP have worked closely together from this time.
- 3.44. In a letter to the Secretary of State for Communities and Local Government in April, the BIIP confirmed it had officially stood itself down in March 2019.
- 3.45. In its April 2019 report, the BIIP acknowledged that "there has been meaningful progress over the last 10 months. We recognise the huge amount of work that Birmingham City Council is doing to get itself on the right track and tackle deep entrenched problems"
- 3.46. The letter recommended the Minister for Housing, Communities and Local Government "Put in place external independent challenge and support, additional to that proposed by the Council, to replace the Panel." The Council is planning to maintain constructive and critical challenge through internal scrutiny and sector-led arrangements.

#### Member Development

- 3.47. The Members Development Strategy 2018-2022 aims to provide a member development programme that will ensure all councillors have the opportunity to gain the knowledge and skills to fulfil their role as 21<sup>st</sup> 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.
- 3.48. Councillors are at the heart of the Council and the organisation as a whole will support the member development strategy. It will be overseen by CMT and the Member Development Steering Group; coordinated through the Members Development Team, consisting of officers from Legal and Governance. This collaborative approach will ensure ownership of the strategy by the Council as a whole.

- 3.49. 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.
- 3.50. Regular monthly "market places" and briefing sessions are held to keep Councillors updated on Council services or services provided by partner organisations.
- 3.51. The Members' Development Programme 2018/19 was delivered around three areas as outlined in the table below:

New Member Induction	Role Specific Training	On-going Member Development
<b>Aim: To give oversight of Council processes and procedures to enable new members to get quickly up to speed with their role.</b>	<b>Aim: ensuring members have the knowledge and understanding of legal and governance requirements to carry out role on regulatory and scrutiny committees.</b>	<b>Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities.</b>
Understand role and responsibilities, the Council's values & behaviours, define new development offer.	Planning, Licensing and Scrutiny training provided to support members.	Skill development (e.g. mental health, first aid); networks and external courses.
Code of conduct and the constitution.		On-going transformation (e.g. Children's Trust, apprenticeships, homelessness, universal credit).
Who's who in Birmingham, customer intelligence and access to IT and council services.		Community leadership including local leadership, tools for ward working).

### Workforce

- 3.52. 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 2018/19, the 'My Appraisal' review process continued, enabling a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:
- We put citizens first
  - We are true to our word
  - We act courageously
  - We achieve excellence

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

#### 4 **Review of effectiveness**

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CMT which has responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors, responding to the BIIP reports and other review agencies and inspectorates.
- 4.2. The Council published a Corporate Governance Improvement Plan and reported progress against planned actions, the most recent in March 2019.
- 4.3. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the '*Delivering Good Governance in Local Government: Framework*' (2016 CIPFA/Solace) and continues to learn from experiences and makes necessary changes to improve its local code of governance.
- 4.4. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. The process requires each Directorate and significant areas of service delivery / business units within a Directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.
- 4.5. The Council's review of the effectiveness of the system of internal control is informed by:

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- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
  - The work undertaken by Birmingham Audit during the year;
  - The work undertaken by the external auditor reported in their annual audit and findings letter; and
  - Other work undertaken by independent inspection bodies.
- 4.6. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.
- 4.7. As in previous years the Birmingham Audit plan was compiled on the basis of professional judgement and a risk model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.
- 4.8. The resulting work plan is discussed and agreed with the Directors and Audit Committee and shared with the Council's external auditor. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the Council and the Service Area. These are submitted to Members, Corporate Directors and service managers as appropriate.
- 4.9. From the work undertaken by Birmingham Audit during 2018/19 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: *"Based on the audit work undertaken I am able to provide a reasonable assurance for the core systems of internal controls evaluated. As in any large organisation, our work did identify some significant issues that required action. This assurance also needs to be taken in context of the findings from the Birmingham Improvement Panel, External Audit and CIPFA's review into financial management, all of which limit my overall assurance."* In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify some significant issues that required action. All significant issues were reported to the appropriate Director during the year.
- 4.10. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to CMT. The more significant of these are set out in the section entitled '**Significant governance issues 2018/19**' below.
- 4.11. The internal audit function is monitored and reviewed regularly by Audit Committee. The Committee reviews management progress in implementing recommendations made in significant, high risk audit reports and against issues raised in the AGS through the Corporate Risk Register.

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- 4.12. The Council's Overview and Scrutiny Committees received reports on key control issues throughout 2018/19 including an integrated assessment of Health and Social Care on delayed transfer of care, corporate parenting and the Sustainability and Transformation Partnership.
  - 4.13. The Vision and Priorities Council Plan and organisational health targets were monitored through the Council Plan Measures by CMT, the Deputy Leader and Cabinet. Directorate and Business Unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.
  - 4.14. The Monitoring Officer advises that there were 122 concerns raised and considered under the Council's Whistleblowing & Serious Misconduct policy in the 2018/19 financial year.

## **5 Review of 2017/18 governance issues**

- 5.1. The significant 2017/18 governance issues were considered by Audit Committee in June 2018, agreed as part of the Statement of Accounts in July 2018 and reviewed as part of the Corporate Risk Register updates in the 2018/19 financial year. In addition, this Committee received reports relating to Final Accounts, Fraud and the Local Government Ombudsman Annual Review.
- 5.2. Children's Safeguarding issues were considered by Cabinet and the Schools, Children and Families O&S Scrutiny Committee. This O&S Committee also considered issues such as the Children's Trust, the Education and Children's Social Care Improvement Journey, child poverty and children missing from home or care.
- 5.3. Housing and Neighbourhoods O&S Committee reviewed progress of the Homelessness Prevention Strategy and Cabinet received an update on the implementation of the Homelessness Reduction Act.
- 5.4. Regular Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.
- 5.5. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review.

## **6 Significant governance issues 2018/19**

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



Issue No	Governance Issue	Mitigation Action / Proposed Action
1	<p><b>Financial Resilience</b></p> <p>The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council.</p> <p>Financial resilience continues to be a focus for the external auditors, with continued demands to evidence 'Going Concern'.</p> <p>Given the Council is in the ninth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it, remains high.</p>	<p>Proactive actions are in place to plan and monitor the delivery of the savings programme including the delivery of workforce savings. These include further assurances on the deliverability and impacts of proposals and a commitment from Cabinet to future budgeting.</p> <p>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.</p>
2	<p><b>Major Projects</b></p> <p>The Council is involved in a range of major projects which include partnership working arrangements and sometimes complex legal agreements for example:</p> <ul style="list-style-type: none"> <li>• Working with neighbouring authorities in the West Midlands Combined Authority</li> <li>• Strengthening partnership working as Birmingham works towards hosting the Commonwealth Games 2022.</li> <li>• Working with private sector partners on major developments in the City such as Paradise.</li> <li>• Birmingham Children's Trust.</li> </ul>	<p>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.</p> <p>The Council is reviewing the way it works with its partners - working equally to a common shared purpose.</p> <p>Children's Services have moved to a Trust arrangement from April 2018. A clearly defined relationship between the Trust and the Council has been established based on service contracts. The contracts will be monitored throughout the year.</p> <p>In the light of weaknesses identified in the Council's role as accountable body for the LEP, a joint protocol is being developed to define relationships more formally so that there is greater clarity of role. Strengthening and tightening capital financial controls. Closely monitoring expenditure on major projects to ensure projects are achieved on time and within budget.</p> <p>Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
		robust business cases and shadow working arrangements.
3	<p><b>The Improvement Agenda</b></p> <p>The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies.</p> <p>Review of services and associated budgets will require significant and substantial changes to the way services are provided, both internally and when working with other service providers.</p>	<p>A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.</p> <p>In the forthcoming year the significant planned budget reductions will increase pressure on services, which will need to be re-shaped and adopt more efficient ways of working to mitigate and manage this.</p> <p>In order to maintain a level of constructive and critical challenge, the Council is actively working with audit, overview and scrutiny and external peers to drive a sector-led approach to sustaining improvement in the future.</p>
4	<p><b>Homelessness and Safety Implications for Tower Blocks</b></p> <p>The implementation of the Homelessness Reduction Act from 1 April 2018 has seen an increase in households approaching the homelessness service.</p> <p>Impact of Grenfell Tower and subsequent implications for improving safety in tower blocks.</p>	<p>Service redesign including reconfiguration of the frontline service, enhanced staffing levels and a new IT system in place from January 2019.</p> <p>A project plan has been produced for all programmes of works required to investigate cladding systems and any associated remedial works to further enhance existing fire safety measures. This includes :</p> <ul style="list-style-type: none"> <li>• A programme to fit sprinkler systems to 213 high rise blocks over a 3 year period.</li> <li>• A programme to carry out fire risk assessments to all communal areas annually.</li> </ul>
5	<p><b>Asset Condition and Sufficiency</b></p> <p>There is an aging schools estate with some assets that are beyond repair.</p>	<p>Capital funding to meet basic need requirements is being effectively managed through our strategy to make best use of existing space</p>

Issue No	Governance Issue	Mitigation Action / Proposed Action
	<p>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.</p> <p>Many operational assets are in very poor condition following years of budget restrictions and lack of investment</p>	<p>The Council approved a Property Strategy 2018/19 – 2023/24 to better join up decision making, realignment of assets and enable strategic development.</p>
6	<p><b>Commonwealth Games</b> Hosting the Commonwealth Games in 2022 brings with it significant delivery expectations (in terms of capital project management and delivery of legacy benefits) for the Council as well as significant financial commitments.</p>	<p>The Council is alive to the delivery, financial and reputational risks associated with the Games and has active risk management and programme management arrangements in place to ensure prompt and timely resolution of issues. The Council is working closely with strategic and regional partners to build robust and collaborative governance arrangements.</p>
7	<p><b>Workforce</b> Recent industrial disputes in the Waste Service and Enablement Service potentially impacting on the Council's efforts to modernise its services.</p> <p>Radical change is required to the culture and behaviours of the organisation and implementation of more effective and streamlined organisational structures which promote innovation, financial resilience and accountability.</p>	<p>The Council will engage positively with a joint working group of trades unions to review its waste service. The Council will commission an independent review of its waste service and act on its findings.</p> <p>A People Strategy has been designed to reshape the workforce and employment model to ensure the Council is fit for the future.</p>
8	<p><b>Contract Management</b> Intelligent Client Functions may not be mature enough potentially leading to a number of contracts underperforming or developing risks to service provision.</p> <p>The corporate risk register monitors contractual risks in relation to Early Years, Travel Assist and the Highways PFI contract.</p>	<p>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.</p> <p>On-going identification of mitigating actions to reduce the level of risk</p>

- 6.2. These matters are monitored through the Corporate Risk Register, CMT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.
- 6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....  
Councillor Ian Ward  
Leader of the Council

Signed .....  
Dawn Baxendale  
Chief Executive

## **Glossary**

### **Academy School**

A school that chooses to opt out of Local Authority control and receive its funding from the Education Funding Agency directly.

### **Accounting Policies**

The rules and practices adopted by the Council that determine how the transactions and events are reflected in the Accounts.

### **Accruals**

Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

### **Amortised Cost**

Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

### **Annual Governance Statement**

The annual governance statement is a statutory document that explains the process and procedures in place to enable the Council to carry out its functions effectively.

### **Balance Sheet**

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

### **Balances**

The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

### **Beacon Properties**

In valuing the Housing Stock the Council's properties are grouped into types of a similar nature. A sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

### **Business Rates**

A local tax paid by businesses to their local authority, based on the value of their premises as assessed by the Government Valuation Office Agency (VOA).

### **Capital Charge**

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

### **Capital Expenditure**

Expenditure on the acquisition of a non-current asset, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. The Government has also enacted regulations which results in certain other types of spending being treated as capital expenditure.

### **Capital Financing Requirement (CFR)**

A measure of an authority's cumulative need to borrow to finance capital expenditure, or to meet the costs of other long-term liabilities.

**Capital Receipt**

Cash received from the disposal of land and other non-current assets, and from the repayment of grants and loans of a capital nature made by the Council.

**Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

**CIPFA/SOLACE Framework**

The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

**Collection Fund**

A separate account administered by the Council collecting receipts from Council Tax and Business Rates and paying it on to the General Fund and other public authorities.

**Community Assets**

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement (CIES)**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Creditors**

Amounts owed by the Council for work done, goods received or services rendered, but for which payment has not been made by the end of the year.

**Current Value**

Current value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The current value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below).

**Debtors**

Sums of money owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

**Deferred Capital Receipts**

Income that is still due following disposal of a non-current asset.

**Defined Benefit Pension Scheme**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

**Defined Contribution Pension Scheme**

Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Depreciated Replacement Cost**

A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

**Depreciation**

The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

**Earmarked Reserve**

A reserve which has been set aside for a specific purpose.

**Effective Interest Rate**

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

**Emoluments**

Payments received in cash and benefits for employment.

**Events After the Reporting Period**

Those events, both favourable and adverse, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

**Existing Use Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Expenditure and Funding Analysis**

The Expenditure and Funding Analysis shows how the Council allocates expenditure for decision making purposes between the Council's Directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

**Fair Value**

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees and Charges**

Income arising from the provision of services, for example, the use of leisure facilities.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

**Financial Instruments**

Financial instruments are financial assets that can be traded. They can also be seen as packages of capital that may be traded. Most types of financial instruments provide an efficient flow and transfer of capital all throughout the world's investors. These assets can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership of an entity

**General Fund**

The account which records income and expenditure for all the services of the Council except for the Housing Revenue Accounts and the Collection Fund, the net costs of which is met by Council Tax, Business Rates and Government grants.

**Government Grants**

Financial assistance from Government or other external bodies as a contribution towards the costs of services. Some grants may be accompanied by strict conditions relating to how the money can be spent. These are referred to as ring-fenced grants.

**Heritage Assets**

Assets that the council intends to hold for the purpose of informing or educating the public about their heritage and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**

A separate account detailing the expenditure and income arising from the provision of council housing. Local authorities are required to maintain this separately from the General Fund.

**Impairment**

A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

**Infrastructure Assets**

These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

**International Financial Reporting Standards**

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by an independent, not for profit organisation called the International Accounting Standards Board (IASB). These are the standards which local authorities adhere to as interpreted for the public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA).



**Investment Properties**

Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm's length.

**Investments – long term**

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

**Investments - short term**

A short-term investment is an investment that will mature to cash within a one-year time period and is considered liquid. An asset is liquid if the owner can readily access it.

**Lender Option Borrower Option (LOBO)**

A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

**Liabilities**

Amounts due to individuals or organisations, at the balance sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

**Long Term Debtors**

These debtors represent income still to be received, for example on the sale of an asset or granting of a loan.

**Market Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Materiality**

An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision (MRP)**

Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

**Movement in Reserves Statement (MiRS)**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**Net Book Value**

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Operating Lease**

A lease other than a finance lease.

**Operational Assets**

Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**Precept**

Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), which the Council collects on their behalf.

**Prior Period Adjustments**

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Private Finance Initiative (PFI)**

A form of contract involving an external company providing services for a fixed period, using facilities that they have provided/constructed.

**Property, Plant and Equipment**

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Provisions**

Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

**Related Parties**

There is a detailed definition of related parties in FRS8, *Related Party Disclosures*. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

**Reserves**

Reserves are reported in two categories.

Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable Reserves

Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

**Revenue Expenditure**

Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

**Right to Buy (RTB) Capital Receipts**

Capital receipts generated from the sale of council housing under the national scheme available to existing tenants. These receipts can only be used in ways determined by the Government, for example to pay for further capital expenditure on council housing.

**Soft Loan**

Loans at nil or below prevailing interest rates are often referred to as soft loans.

**Top-up Grant**

Additional grant which the Government provides to reflect the difference between Business Rates income that the Council can generate and the amount which the Government has calculated it needs to spend on services.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL**

**To be finalised on completion of the audit.**

# Updated External Audit Plan

*Year ending 31 March 2019*

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Birmingham City Council  
May 2019



# Contents



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**Appendices**

- A. Statutory Recommendations – attached separately

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Birmingham City Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Birmingham City Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology for the 2018/19 audit which will enable us to be more responsive to changes that may occur in your organisation.

<b>Group Accounts</b>	<p>The Council is required to prepare group financial statements that consolidate the financial information of</p> <ul style="list-style-type: none"><li>• Acivico Limited</li><li>• Birmingham City Propco Limited</li><li>• Innovation Birmingham Limited (disposed of in April 2018)</li><li>• InReach (Birmingham) Limited</li><li>• National Exhibition Centre (Developments) Plc</li><li>• PETPS (Birmingham) Limited</li><li>• PETPS (Birmingham) Pension Fund Scottish Limited Partnership</li><li>• Birmingham Children's Trust CIC</li><li>• Birmingham Airport Holdings Limited (Associate)</li><li>• Paradise Circus General Partner Limited (Joint Venture)</li></ul>
<b>Significant risks</b>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <ul style="list-style-type: none"><li>• The non-rebuttable presumed risk under ISA 240 that the risk of management over-ride of controls is present in all entities</li><li>• Valuation of property, plant and equipment</li><li>• Valuation of pension fund net liability</li><li>• Valuation of equal pay provision</li></ul> <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>

# Introduction & headlines

Materiality	We have determined planning materiality to be £44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.2m (PY £2.2m).
VfM arrangements	<p>In 2017/18 we issued a qualified 'adverse' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The weaknesses in arrangements which we identified, were both significant in terms of their impact and numerous in terms of the number of different aspects, that we were unable to satisfy ourselves that the Council had proper arrangements to secure VfM.</p> <p>Our risk assessment regarding your arrangements to secure value for money for the 2018/19 financial year have identified the following VfM significant risks:</p> <ul style="list-style-type: none"><li>• Finance</li><li>• Governance and the Waste Service</li><li>• Highways Management and Maintenance PFI (HMMPFI) Contract</li><li>• Commonwealth Games</li><li>• Improvement Panel</li><li>• Services for Vulnerable Children</li><li>• Management of Schools</li></ul> <p>As part of our VfM work we will also follow up on the Statutory Recommendations which were issued to the Council in March 2019 and are attached at appendix A.</p>
Audit logistics	<p>Our interim visit took place in February and March and our final visit is taking place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.</p> <p>Our fee for the audit will be £241,909 (PY: £314,618) for the Council, subject to the Council meeting our requirements set out on page 13.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.



# Key matters impacting our audit

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Birmingham City Council, there are significant ongoing financial pressures as well as risks such as the waste strike, Equal Pay and the Commonwealth Games.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Council will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the 2018/19 CIPFA Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

### Creation of new subsidiaries

The Children's Trust became operational in 2018/19 and will be consolidated in the Council's group accounts for the first time.

The Council has also provided a guarantee to the Children's Trust relating to the West Midlands Local Government Pension Scheme.

### Other duties under legislation and the Code

We issued written recommendations to the Council in March 2019 under section 24 of the Local Audit and Accountability Act 2014 (attached at appendix A).

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will consider the group accounts consolidation including the Children's Trust
- We will review the accounting treatment and valuation of the pension guarantee

- We will follow up with Council Officers on the progress made for each of our Statutory Recommendations and will include our findings within the VfM section of our Audit Report in July 2019.

# Group audit scope and risk assessment

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

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Birmingham City Council</b>	Yes		Please, see page 3	Full scope UK statutory audit performed by Grant Thornton UK LLP.
<b>Birmingham Children's Trust</b>	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	Valuation of pension net liability  Accuracy of expenditure	Specific scope procedures to be performed on the valuation of the pension net liability and the accuracy of expenditure incurred by the Trust during the year. These procedures will be performed either by the group auditor or the component auditor.
<b>Birmingham City Propco Ltd</b>	No	Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of the group financial statements.	Investment properties valuation	Specific scope procedures to be performed on the valuation of investment properties by the group auditor. However, if investment properties are immaterial at year end then we will perform analytical procedures at a group level.
<b>InReach Ltd</b>	No	Analytical procedures	Consolidation process	We plan to perform analytical procedures at a group level. However, if investment properties are material at year end, we will perform specific scope procedures on investment properties valuation to be performed by the group auditor.
<b>NEC (Developments) Plc</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
<b>Acivico Ltd</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.

# Group audit scope and risk assessment

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
<b>Innovation Birmingham Ltd (disposed of in April 2018)</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
<b>PETPS (Birmingham) Pension Fund Scottish Limited Partnership</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.
<b>PETPS (Birmingham) Ltd</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures at a group level.
<b>Birmingham Airport Holdings Ltd (Associate)</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.
<b>Paradise Circus General Partner Limited (Joint Venture)</b>	No	Analytical procedures	Consolidation process	We will perform analytical procedures on a group level.

## Key changes within the group:

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

## Audit scope

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

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>ISA240 revenue risk (rebutted)</b>	<b>Group and Council</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Birmingham City Council.</p>
<b>Management over-ride of controls</b>	<b>Group and Council</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and it could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Risk Relates to	Key aspects of our proposed response to the risk	
<b>Valuation of pension net liability</b>	<b>Group and Council</b>	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test 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;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of the West Midlands Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data, benefits data and fund assets data sent to the actuary by the pension fund.</li> </ul>

# Significant risks identified

Risk	Risk Relates to		Key aspects of our proposed response to the risk
<b>Valuation of property, plant and equipment (specifically council dwellings, other land and buildings, and surplus assets)</b>	<b>Group and Council</b>	<p>The Council revalues its land and buildings on a rolling five-yearly basis as well as undertaking review of assets not valued in year and any movement until the year end. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion in 2017/18) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for those assets not revalued during the year and those valued at 1<sup>st</sup> April 2018, and how management has satisfied themselves that these are not materially different to current value at year end:</li> <li>• review the beacons used for the HRA valuation in order to ensure that the classes used are still appropriate and reflect Council's housing stock as well as challenging the basis of valuation of such beacons.</li> </ul>
<b>Valuation of equal pay liability</b>	<b>Group and Council</b>	<p>Under ISA540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.</p> <p>We identified the valuation of the equal pay provision as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our documentation of the process and undertake a walkthrough of the controls in place to estimate the equal pay provision;</li> <li>• review the assumptions on which the equal pay provision estimate was based;</li> <li>• consider the events or conditions that could have changed the basis of estimation;</li> <li>• reperform the calculation of the estimate on a sampling basis;</li> <li>• check that the estimate has been determined and recognised in accordance with accounting standards;</li> <li>• determine how management assessed the estimation uncertainty; and</li> <li>• consider the impact of any subsequent transactions or events.</li> </ul>

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# Other matters

## Other work

In addition to our responsibilities under the NAO Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the NAO Code of Practice, as and when required, including:
  - giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State.
  - applying to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

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

# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

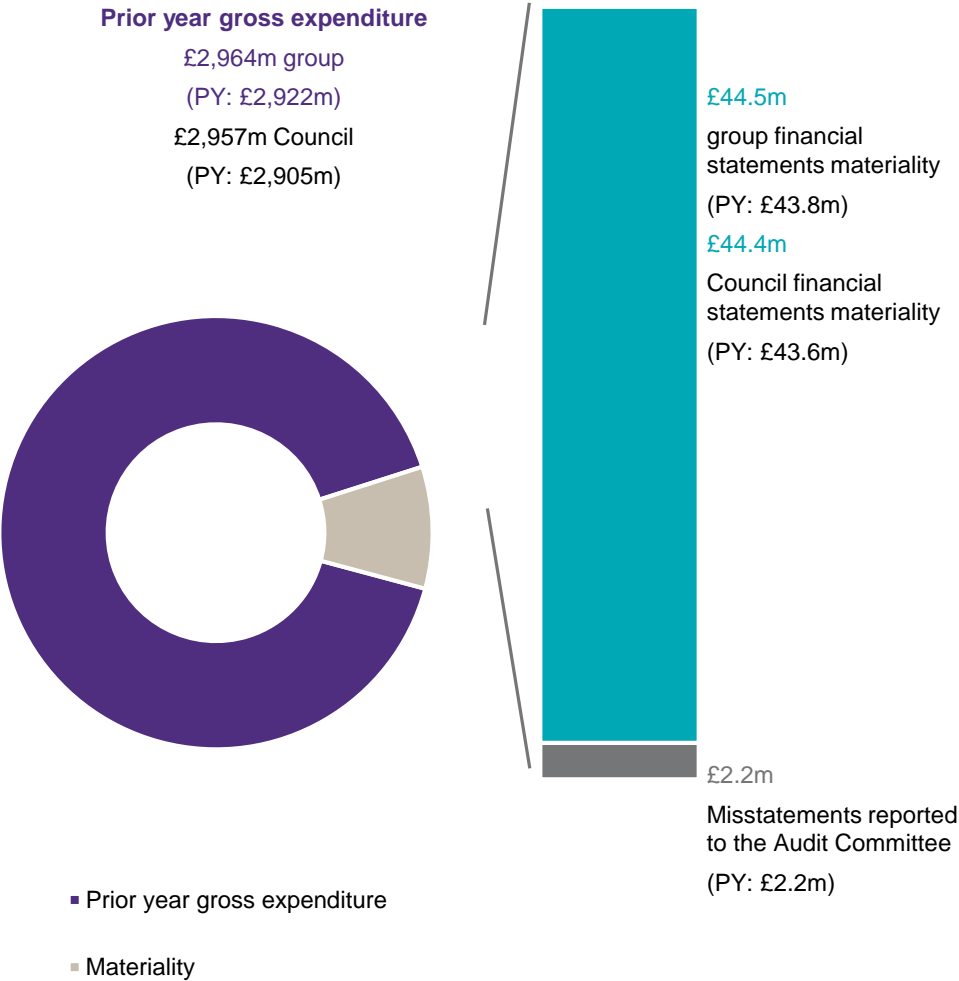
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £44.5m (PY £43.8m) for the group and £44.4m (PY £43.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.2m (PY £2.2m).

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.





# Value for Money arrangements

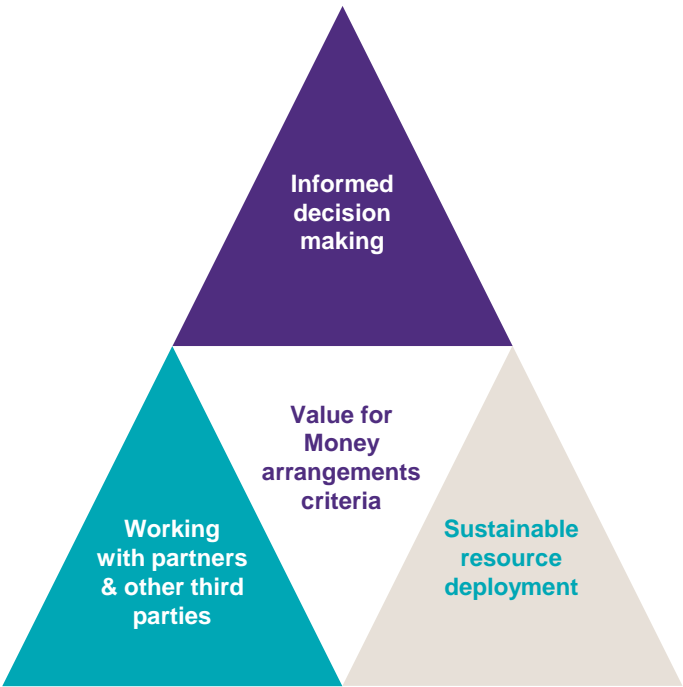
## Background to our VfM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Significant VfM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money. In light of the significant financial risks that the Council is facing in delivery of its 2019/20 budget and beyond, we will be reviewing whether it is appropriate or not, to exercise any of the auditor's formal powers.



### Finance

The key risk is that the proposed 2018/19 savings schemes have not delivered the required recurrent savings, or are taking longer to implement than planned. In addition, the Council's medium term financial plan for 2019/20 to 2022/23 needs to incorporate realistic and detailed savings plans. This needs to take account of key budget and service risks, whilst maintaining an adequate level of reserves to mitigate the impact of budget risks including the HMMPFI contract (see next page), Commonwealth Games (see next page), Equal Pay, Paradise Circus and Acivico Limited.

We will review the Council's latest financial reports, including savings plans trackers, to establish how the Council is identifying, managing and monitoring these risks. This will involve considering the adequacy of reserves and their prudent use as well as the transparency of financial reporting.



### Governance and the Waste Service

The key risk is that the Council fails to implement adequate governance arrangements. In particular, in relation to the waste dispute in order to minimise potential industrial action.

We will review the governance arrangements in place for the Waste Service as well as considering the progress made by the Council to review other options for the delivery of the refuse collection service.

# Value for Money arrangements (continued)



## HMMPFI Contract

The key risk is the ongoing contractual disputes with Amey Birmingham Highways Limited as the SPV who sub-contract to Amey Local Government (and other involved parties) in respect of the HMMPFI contract, which could have a significant impact on the Council's financial sustainability.

We will review the latest information relating to this contract, to establish how the Council is identifying, managing and monitoring this risk.



## Commonwealth Games

The key risk is that the cost of hosting the Commonwealth Games will impact on the Council's future financial sustainability.

We will review the Council's latest governance arrangements for the delivery of the XXII Commonwealth Games in 2022 and the associated funding arrangements, to establish how the Council is identifying, managing and monitoring this risk.



## Improvement Panel

The Birmingham Independent Improvement Panel published its final report on 2 April 2019 subsequent to the Panel standing down from the end of March 2019.

The key risk is that the Council fails to implement the next steps and recommendations set out in the Panel's final report, taking into account the Council's own stocktake report issued in March 2019.



## Services for Vulnerable Children

The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council. Ofsted have undertaken an inspection of services for vulnerable children.

We will review Ofsted's findings which were reported in January 2019, to establish how the Council is identifying, managing and monitoring this risk.

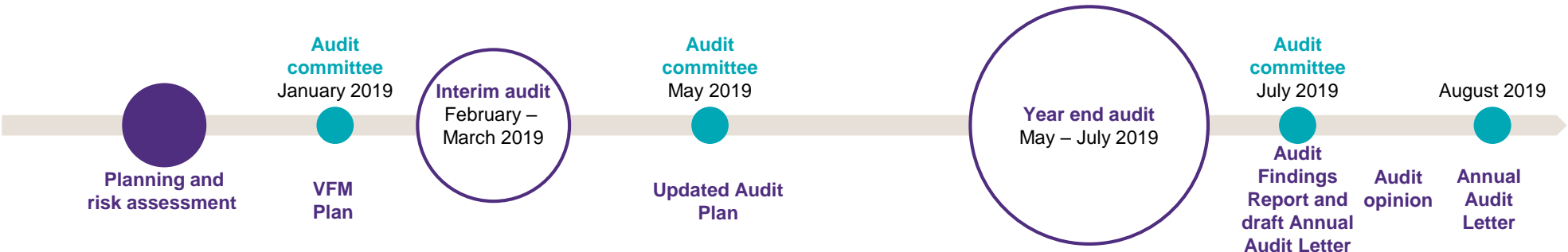


## Management of Schools

The key risk is that the governance issues identified at schools will not be effectively addressed.

We will review the progress made by Internal Audit within their coverage of schools governance, to establish how the Council is identifying, managing and monitoring this risk.

# Audit logistics, team & fees



**Paul Dossett, Engagement Lead**



**Laura Hinsley, Senior Manager**



**Tess Barker-Phillips, Audit Manager**

### Audit fees

The planned audit fees are £241,909 (PY: £314,168) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. £27,750 of fees are planned for audit-related services and £17,000 for non-audit related services which constitute non NAO Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Where additional audit work is required to address any additional risks identified, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

### Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Birmingham City Council achieved early close in 2017/18 and the audit was completed in line with the earlier deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 13). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, we will be grateful if you could ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

## Risks identified

We have discussed the year end timetable with finance officers. We understand that the final accounts team and other parts of the finance function are currently extremely short-staffed due to an unprecedented number of staff experiencing serious and unexpected illnesses, resulting in these staff being off work at short notice and with uncertain return dates.

The finance team have flagged to us that this represents a risk to the year end accounts delivery. This therefore presents a risk to the delivery of the audit, both in terms of being able to commence the audit in a timely manner, and the potential for increased errors. If the accounts are late or contain significant errors there is a risk that the audit deadline may not be met.

We will continue to discuss plans with finance officers to identify potential risks to delivery of the accounts in line with expected deadlines, and any mitigations that can be put into place to avoid delays to the audit. We commenced our audit on 28 May 2019 and received the unaudited financial statements by the deadline of 31 May 2019.

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# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

# Independence & non-audit services

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and its subsidiaries. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of housing benefits claim, pooled housing capital receipts, teachers' pensions	33,844	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £33,844 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of grant claims (non-Code work as defined by PSAA)	27,750	Self-Interest (because this is a potentially recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,750 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
CFOi (non-Code work as defined by PSAA)	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
CASS reporting – Finance Birmingham (non-Code work as defined by PSAA)	7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £241,909 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

None of the services provided are subject to contingent fees.

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# Appendices

## A. Statutory Recommendations





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# Statutory Recommendations

## Final Report

**March 2019**

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**Birmingham City Council**

**Audit of Accounts 2018/19**

**Governance Issues**

# Birmingham City Council: Statutory Recommendations March 2019

## Our responsibilities

1. As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014 ('The Act'). These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. Electors also have the right the opportunity to raise questions about the Council's accounts and to make objections in relation to the accounts.
2. We have concluded that it is appropriate for us to use our powers to make statutory recommendations under section 24 of The Act (Schedule 7) due to the Council's financial and governance challenges.

## Reasons for making the recommendation

3. We included statutory recommendations in July 2018 under paragraph 2 of Schedule of 'the Act' in both our 2017/18 Annual Audit Letter and Audit Findings Report relating to operational arrangements, finance and governance. This followed the issue of a statutory recommendation in October 2016 in respect of financial resilience. The statutory recommendations issued in July 2018 stated that the Council needed to:

### Finance

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

### Transparency and Governance

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

### Subsidiary Bodies

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

## Place Directorate

- ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives
4. This recommendation and the Council's formal response were considered at the Council meeting on 11th September 2018. A 12 month Action Plan was agreed and is being tracked by the Council's Audit Committee.
  5. We have now concluded that whilst good progress has been made in a number of areas in delivering against the recommendations, progress in relation to the refuse collection service, in particular, has been hampered by a new wave of industrial action. The Council, in addition, continues to face a number of very significant risks, which it is seeking to manage. Accordingly, we now consider it appropriate to make further statutory recommendations under 'the Act'. This is the third set of such recommendations that we have considered it appropriate to issue in just under two years.
  6. It is encouraging that the Council has made progress in the following areas:
    - Ofsted has, for the first time in recent history, recognised improvements in children's services. The service is still judged to require improvement, but this is an important and significant step forward.
    - the Council's Management Team (CMT) has been strengthened and refreshed, including, in the last year, a new Chief Executive, Chief Finance Officer and Assistant Chief Executive, all with considerable sector experience, which has increased capacity.
    - there is a new focus on delivering service improvements and robust financial management.
    - a new council plan and workforce strategy have been developed, reflecting the Council's priorities.
    - in-year financial reporting is more transparent, particularly concerning the use of reserves and the annual Financial Plan provides greater detail than previous plans.
    - the 2018/19 budget is on target to be delivered, with a smaller call on reserves than the budgeted £30m, with greater focus on budget management and financial accountability in Directorates.
    - CIPFA has been brought in as an improvement partner to help strengthen the finance function and move it towards a top quartile performing function.
    - governance has been strengthened in relation to the oversight of the Council's subsidiary bodies, which has involved Member training and a re-focus on the importance of the 'shareholder' function; and
    - there is to be a renewed focus on the customer and customer experience.
  7. This progress is not to be underestimated and represents a step forward by a new team of officers and members in a short period of time. We accept that it would be unrealistic to expect that a relatively new management team would be able to address, overnight, the deep-seated problems which have dogged the Council for over a decade. This will take time. The independent Improvement Panel's remit finishes in March 2019 and its concluding report will provide the Panel's own final assessment of progress made against the improvement challenge set by the Kerslake report.

8. Despite the progress made, however, our view, is that the Council faces some particular challenges which need to be tackled now. The way in which recent events in relation to the waste dispute is resolved will determine how much of a corner has been turned. Strong political leadership is required to implement the hard decisions required to deliver the transformational savings needed to protect financial resilience, and to mitigate the significant financial risks that the Council is facing.
9. Accordingly, we have made the following recommendations.

### **Recommendation made under paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014 ('the Act')**

The Council is recommended to:

#### **Governance and the Waste Service**

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

#### **Finance**

- continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements
- broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks
- keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:
  - continuing to strengthen its level of reserves; and
  - completing the development of contingency plans to minimise the effects of these risks should they crystallise.

## Governance and the Waste Service

10. The Kerslake Report of December 2014, concluded that:

‘For a number of years and successive administrations, the council’s members and senior officers have not gripped some very significant issues, such as children’s services, waste management and equal pay. Instead there have been a series of short term fixes and annual salami slicing of services which have kicked the can down the road [...] this is no longer sustainable.’

11. The report argued that successive administrations had swept deep-rooted problems ‘under the carpet’. It went on to argue that the most important thing that the Council needed to do to improve was to change its corporate culture. Some four years on, of the significant issues referenced by Kerslake, children’s services show signs of improvement, but waste management and equal pay remain significant challenges. It is therefore legitimate to question the extent to which corporate governance has improved in the last four years.

12. While corporate management capability and capacity has strengthened, the Council has, at times, continued to exhibit the same short-termism, and tendency to avoid managing deep-rooted problems, that Kerslake identified as being the biggest block to progress four years ago. Nowhere is this better illustrated than the Council’s approach to waste services. We were critical of the Council’s failure to manage its waste services effectively in July 2018 and issued the following statutory recommendation to address its shortcomings in this respect:

‘[the Council should] ensure that robust management and governance arrangements are put in place within the Place Directorate, particularly to ensure effective oversight of the waste service, to ensure that it delivers its financial and service objectives.’

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

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

14. The original waste strike and the failure to introduce revised working arrangements until September 2018 (which have still not been formally signed off by the unions) have given rise to significant budget pressures in both 2017/18 and 2018/19. The total additional cost of the original waste strike was of the order of £6.6m.

15. Subsequently, the Council commissioned external solicitors to review the actions of the former Leader and Cabinet in relation to the conduct of the original waste dispute over the summer/autumn of 2017. The report, which the Council published in the public domain in December 2018, concluded that the former Leader had acted unlawfully in seeking to overturn a decision made by Cabinet on 27 June 2017 regarding the re-organisation of the waste service.

16. The report states that the Leader had purported to make an agreement with Unite at ACAS to reverse the Cabinet's decision to delete 113 grade 3 posts. It goes on to say that he subsequently sought to ratify his decision via an informal Cabinet meeting on 18 August 2017. The report concludes, however, that the informal Cabinet was not a formal decision-making body and therefore had no powers to ratify the Leader's decision. The report argues that the Council should have proceeded to implement the decisions made in the 27 June report or have made a decision at a formally instituted Cabinet to modify its original decision, which would then have been lawful.
17. The report's conclusions are stark and echo many of the findings of the original Kerslake Report in relation to the Council's systems of governance. In this respect, the report notes:
- 'At the heart of this matter lies an ongoing failure to accept the norms of decision-making. This is the DNA that is the day to day governance of a council and its heart and at the material time, namely in 2017 was missing/distorted at BCC [...] The Cabinet did not operate effectively during this time. It was dysfunctional not a cabinet [...] collectively they were not an effective team. They were also played off against each other by the Leader. Meetings when they did happen were ineffective. When presented with the ACAS meeting and outcome, Cabinet members did not challenge the Leader collectively over his actions and did not stop Cllr Clancy as might be expected. At least one said that they did not do so because they did not want to lose their job as a cabinet member [...] The senior officer management team (CLT) was dysfunctional during this time.'
18. It is a picture that Kerslake would have recognised.
19. Following the original waste dispute, the former Leader resigned and a new Leader was installed in the autumn of 2017. The action was suspended on 20 September 2017 when Unite the union ('Unite') won an injunction blocking the proposed redundancies. The Court ordered the re-instatement of the dismissed workers but also the immediate implementation of the proposed revised working arrangements, incorporating in particular, a move to five day working. Whilst the dismissed workers were reinstated in different roles in January 2018, the revised working arrangements were not introduced until September 2018 and have still not been formally signed off by the unions.
20. Subsequently Unite commenced industrial action on 14 December 2018, by announcing that members would work to rule. Unite had learned that the Council had made payments totaling £68,645 to GMB members in the waste service in May 2018 on the grounds that the Council had failed to consult GMB over proposals to dismiss waste service employees as redundant, contrary to s.188 of The Trade Union and Labour Relations (Consolidation) Act 1992. According to the Cabinet report of 15 January 2019, the exclusion of GMB had been at the insistence of Unite, which Unite denies. The Council has subsequently conceded that Unite was correct in this assertion. The payments to GMB members were made under delegated arrangements and were accordingly not set out in a report to Cabinet.

21. Unite argued that there was no breach of s.188, alleged blacklisting and trade union discrimination, and demanded that its members receive similar payments to those made to GMB members. The total cost of this claim was of the order of £1.7m, as payments would also have to be made to Unison waste service members. Certain Unite members have also brought ET proceedings against the Council, alleging that the payments to GMB have been to the detriment of Unite members, on a variety of grounds. ET proceedings were timetabled for February 2020. On 11 January 2019 Unite informed the Council of its intention to begin continuous industrial action, based around working to rule, commencing 25 January 2019. The industrial action had the potential to run for some time and was causing considerable disruption to services, with additional costs running at up to £0.35m per week to bring in external contractors to remedy incomplete work.
22. In response, a public and a private report were presented to Cabinet on 15 January 2019, setting out the Council's proposed plans to deal with the industrial action. The public report stated that 'the Council does not in any way agree with Unite's position', and that it had little merit, in the Council's view. It set out four options to address the industrial dispute:
- do nothing;
  - make the payments to Unite members
  - seek binding arbitration; and
  - obtain a Court order (or 'injunction') to prevent the industrial action continuing on the grounds that it was unlawful.
23. The first two options were not recommended in the report. In particular, the second option of making payments to Unite members, was not supported, principally because, as the report states, there was 'no legitimate reason' to make payments to these workers, indeed, 'to make equivalent payments to them could be ultra vires.' The report also stated that making such payments could also represent a 'contagion' risk as other groups of Council staff might also, in future, resist any initiatives to reconfigure services to reduce costs in a similar way. The public paper states that the Council's options to respond to Unite 'are set out in this report and also the Private Report.'
24. Following the Cabinet meeting it was announced in the press and local media that the Council was to adopt a twin-track approach by pursuing arbitration, with the agreement of both parties, and by seeking a Court order to prevent the industrial action. The Council was concerned that, given a Court hearing date of February 2020 for the ET proceedings, significant additional costs might accrue, assuming that industrial action continued. The Cabinet member for Clean Streets, Waste and Recycling, however, promptly resigned as he was opposed to the proposed injunction. Unite then issued proceedings to obtain an injunction, later to be joined by Unison. Unite also announced a new programme of industrial action.
25. While the Council's legal advisers had advised that the industrial action was unlawful, the Council took subsequent legal advice which argued that it would be lawful for the Council to make payments to Union members, if they were made, pursuant to settling litigation, rather than being made in recognition of the validity of Unite's claim. Our own legal opinion broadly reflected the Council's legal advice. Negotiations on a 'without prejudice' basis were then conducted with the Unions with a view to agreeing suitable payments to end the dispute. These were not successful.



26. A suite of options was then included in a report for Cabinet to consider on 12 February 2019 to resolve the dispute, which broadly reflected the options provided within the Cabinet report of 15 January 2019. The report included no officer recommendation. On the day of the Cabinet meeting, however, a late hybrid option was included in the report, option 5, which was to seek a negotiated settlement through ACAS. This involved making the offer of payments to Unite and Unison members to end the dispute. It also stipulated, however, that, should the offer not be accepted by close of play on February 12, the Council would move to injunct the unions. Discussions subsequently broke down and the Council accordingly put in place its plans to take legal action by way of injunction. This was a difficult decision for the administration to take.
27. On 28 February 2019, the case was heard and the Council was not successful in its application for an injunction preventing the current industrial action of Unite and Unison from continuing. In summary, the Court held that s.222 (1) (b) TULRCA required the Court to look at a union's reasons for undertaking industrial action. What mattered, the Court held, was the belief of the union. He concluded in this instance that the unions believed that industrial action was to seek parity payments for their members. The Council decided against appealing the Court judgment.
28. Subsequently, following discussions at ACAS, the Council and Unite agreed, on a without prejudice basis, a draft Heads of Terms which was approved by Cabinet on 15 March 2019. These proposals are intended to settle all litigation and all industrial disputes including ceasing all current industrial action. The public Cabinet report states that the Council will pay to Unison and Unite members, in summary, £3,000 to all valid individual claimants, and an additional payment of £500 to all individuals who were members of each union as set out in the Heads of Terms agreed by cabinet on 15<sup>th</sup> March 2019. The amounts are likely to be net of any applicable tax or national insurance. The gross amount payable to a standard rate taxpayer if tax and NI were payable, would be £5,754 to each individual. This will cost £1.864m in total. The proposed settlement needs now to be formally signed off by all parties.
29. Whilst a potential end to the industrial dispute, is a welcome outcome, it comes at a cost:
- the failure to consult with GMB in 2017 over the changes to working arrangements led the Council to make payments to GMB of £68,645, of itself a relatively modest sum. However, this was to have far-reaching and 'unintended consequences', in the Council's own words, resulting in the industrial action taken by Unite and Unison, disruption to services, and additional costs amounting to £6m to hire agency staff and other costs and to settle the dispute.
  - in addition, the Council will also have to pay £1.864m to bring to an end the dispute to Unite and Unison members.
30. A positive outcome, is that the draft Heads of Terms provide for an independent review of future options for the waste service to be carried out. The terms of reference for the review will be set by the Council on 26<sup>th</sup> March 2019. A Joint Services Improvement Board will be established and will be consulted upon in relation to the terms of reference. The Board will be chaired by a Cabinet Member and the membership will include all joint trade unions GMB, Unison and Unite.



31. This is, an important moment for Council and its politicians, in particular, to demonstrate, that they can act in a decisive manner to tackle a long-standing issue. The way in which the review is managed will impact on the Council's ability to contain the 'contagion' risk referred to in the Cabinet report of 15 January 2019. The Council has a challenging industrial relations history as the ongoing strike action involving the enablement service, which commenced in 2017, demonstrates.
32. The Council now has a chance to improve its relations with trade union partners by building industrial relations capability and also to look at options to ensure that the waste service delivers value for money for local citizens. In this respect, it is important that the independent review, agreed as part of the Terms of Settlement, should include all options for delivering the service going forward, so that any decision is informed by a comprehensive analysis of the choices available to the Council.
33. Assuming that the present dispute is resolved satisfactorily, it will still remain the case that the service is not as efficient as it could be. For instance, few councils that we are aware of, employ a waste reduction collection officer on each refuse freighter. Refuse collection also has a history of service disruption which does not represent a good stewardship of public funds.
34. In addition, looking back over the history of the waste dispute, the Council's unwillingness over a long period to tackle working practices within the waste refuse service has also cost it dearly. In particular, over the last decade, many of the Council's Equal Pay claims have resulted from comparisons between male refuse workers and female workers deemed to be in comparable posts who were paid significantly less. The Council has received claims under the Equal Pay Act 1970 and recognised total Equal Pay (EP) liabilities totalling £1.2bn, which relate to working practices and changes to terms and conditions which have been in place for more than a decade. This has involved successive political administrations. Funding the payment of these claims has proved a significant ongoing drain on the Council's finances.
35. The Council has put in place revised working arrangements in the waste service, and monitoring arrangements, to ensure that they minimise the potential for further Equal Pay claims. The Council also agreed a Mitigation Strategy on 24 August 2018 to include review of working practices Council-wide, to ensure compliance with equal pay requirements. It would seem sensible to gain further assurance around the robustness of these arrangements, as they pertain to waste services, by commissioning a review to ensure that they are embedded and are being monitored robustly.

36. For these reasons we make the following recommendations:

**The Council is recommended to:**

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

## **Finance**

### **Savings Plan delivery**

37. The Council has not delivered all of its planned savings in recent years. In 2017/18, the Council reported a net overspend of £4.9m after use of £63.1m of reserves (£42.2m of which were planned) plus £11.7m to fund pension guarantees. The Council applied £116.8m of reserves in 2016/17 and 2017/18 to deliver a cumulative deficit of £35m. We noted in our Audit Findings report for 2017/18:

‘If the Council had not applied any reserves over the last two years, it would have had to deliver £150m more in cumulative savings to achieve balance. It has effectively been running an annual deficit of £75m.’

38. The Council has, however, made progress in the last 12 months. The Council’s financial plan provides for £52.9m of savings in the current year, 2018/19, after applying £30.5m of reserves. In this respect, the month 9 budget report is forecasting a £2m overspend, which is a stronger position than at the same stage this time last year, when the Council reported a £4.5m overspend after the utilisation of £75m of reserves. It is also expected that not all of the £30.5m will need to be utilised to support the budget. Under delivery of savings in 2018/19 is likely to amount to £9.7m (18% of planned savings) which is a better position than in previous years. In 2017/18 under delivery of savings amounted to £22.6m (32% of planned savings) and £55.8m (63% of planned savings) in 2016/17. Bearing down on non-delivery of planned savings will continue to be a very important area of focus for the Council.

39. 2019/20 and beyond, however, continues to look extremely challenging. The Council is seeking to strengthen its monitoring processes and embed accountability for delivery of savings more strongly within Directorates. The Council needs to deliver £86m in savings by 2022/23. To put this into context, this is equivalent to around 8% of its current controllable budget (that is, excluding non-controllable costs such as delegated expenditure to schools). £36m of savings needs to be delivered in the next financial year, 2019/20, but £18m in savings, are still being consulted on. Savings to be consulted on in the following three years amount to £73m.
40. The Financial Plan for 2019/20 to 2020/23 includes mostly medium-scale savings plans but includes few 'transformational' savings plans. The Council argues that it has learnt lessons from the non-delivery of large savings plans in the past and that it will now only include transformational plans in its Financial Plan that are properly worked up. This is a sensible approach, but the absence of transformational plans within the current Financial Plan, will become more important in later years as it may become more difficult to achieve significant savings through less ambitious schemes. There are a number of one-off budget risks, (referred to later) which if they crystallised, might require an increase in the amount of savings to be delivered. Equally the Council needs budget headroom programme to meet any other changes in business assumptions in the overall medium term financial plan.
41. In this respect, there is an opportunity to broaden existing transformational work across the Council's financial plan for 2019/20 to 2020/23 to help deliver additional savings at scale to address the impact of the combined savings and budget risk pressures. The current financial plan includes a savings plan to reduce the costs of social care high-cost provision by £6.25m in 2019/20, but this plan remains an exception.
42. There is also an opportunity to learn from past experience. Some large projects have delivered more substantial savings, others have not. For instance, the 2017+ Financial Plan provided for an ambitious plan to radically reorganise the Early Years Service. This was one of the largest of the Council's transformational plans. The initiative was intended to deliver £10m in savings. A recent Internal Audit Report of January 2019 explained that a key element of the reorganisation plans involved the TUPE transfer of 140 Council staff to four partner organisations. However, due to late concerns expressed in relation to collective bargaining rights, staff have been, instead, seconded and not TUPE'd to the partner organisations. As a result, according to the Internal Audit report, the £10m predicted savings from the initiative will 'almost certainly not be achieved.' The delay in starting the contract has cost £4.7m according to the report.
43. It is right to exclude any project from the Financial Plan which is not sufficiently well-developed. The example of the Early Years Service project, however, should not deter the Council from continuing to develop similarly ambitious projects. The experience of that project, and, indeed the waste services dispute, suggest that cost reduction schemes involving significant service re-configuration, may require more effective engagement with staff and unions at the outset, and better joint understanding of the objectives of the change plans by Members and officers. The approach that the Council intends to take review the future operation of the waste service, reflects this approach, and if well-managed, could provide a model for other service reviews.

## Medium Term Financial Plan (MTFP)

44. The Council is seeking to develop a more robust MTFP which is less dependent on the use of reserves to support budget delivery. Whilst the original 2018/19 plan, as noted, was reliant on £30.5m of reserves, the Council argues that this was a recognition that it needs time and capacity to transform its services. The Council is seeking to strengthen financial resilience by setting a maximum council tax increase of 4.99% for 2019/20.
45. The MTFP is central to delivering financial balance over the medium term. It reflects current assumptions about future service and financial pressures and likely fee, government grant and other income trends. Developing more transformational savings plans may be one way in which the Council can build in headroom to accommodate financial pressures arising from increases in service demand, legislative requirements and, in particular the large one-off risks, such as The Commonwealth Games and Equal Pay, which are only two of the potential financial pinch-points referred to in the next section.

## Adequacy of Reserves

46. The Draft Financial Plan 2019-2023 notes that the Council will hold £152.8m in general reserves and £121m in earmarked reserves at the end of 2019/20. A Policy Contingency of £42.2m is also available 'to protect against unplanned expenditure.' The earmarked reserves are planned for specific uses and are therefore not available to support the general budget. Therefore, in reality, the Council has effectively £195m to support the budget and to meet contingencies.
47. The Council has recognised that it cannot continue to use reserves to support the revenue position, as it has done up to 2018-19. It also plans to make a net contribution to reserves of £17m in 2019/20. The Council's new reserves policy makes it clear that general reserves should not be used to mitigate the requirement to make ongoing savings. The 2019-20 budget, however, relies upon the use of £5.9m in general reserves to support the budget, and £21.1m (net) of earmarked and other reserves will also be applied elsewhere, for instance, to pump-prime savings schemes.
48. While the Council's reserves, earmarked and un-earmarked, are substantial, they should be viewed in the context of the unique financial risks that the Council faces, which are more considerable than those faced by most other local authorities. These remain significant; key risks have emerged as follows:
- **Equal Pay:** remains a significant financial risk, although it is difficult to quantify the extent of the risk as there are inherent uncertainties surrounding the potential volume, timing and chances of success of any future claims. The incidence of claims has reduced in recent years and the Council has been negotiating an agreement with the main unions which will mitigate risk.
  - **Commonwealth Games:** at December 2017, the Council had committed to providing £184.7m for the project, £145.1m in capital funding and £39.6m to meet revenue expenditure. These are considerable commitments. The Council will also incur additional costs during the Games and the project assumes partnership funding of £75m of which £30m still needs to be agreed by partners. The Council has budgeted for the expected cost of the games and, in addition has provided a £4.7m provision in 2018/19 to further mitigate timing risk. Pressure must be maintained to ensure that the overall budget is not exceeded, either through construction projects not coming in on budget, or through escalation of costs elsewhere. Accordingly, there remains a risk that the Council might have to meet further liabilities if costs are not well controlled.

- **Amey Contract:** this contract was one of the first Highways PFI contracts and commenced in 2010. It is a £2.7bn project over 25 years, involving a £328m refurbishment of the highway infrastructure. Following a series of legal challenges, the Court of Appeal determined that Amey's interpretation of the contract from 2014 had the effect of reducing its workload. The Court ruled that this interpretation was incorrect. Subsequently Amey and the Council have been in dispute regarding amounts due to the Council, following the Court ruling, and the Council has, in turn, withheld contractual payments from Amey. Negotiations are ongoing to resolve the dispute but there remains a risk that Amey could exit the contract which could result in financial liabilities accruing to the Council. In particular, the Council remains highly dependent on Government-funded PFI credits which contribute £50m towards the annual £80m unitary charge for the highways services provided. If the PFI arrangement could not be continued, the Council would face a very significant financial liability.
- **Paradise Circus:** is a Local Enterprise Partnership (LEP) programme started in 2014, carried out under the auspices of the City Enterprise Zone (EZ). It will develop office space, hotel and car-parking around Paradise Circus, a City Centre site under three anticipated phases. Phase 1 has overspent by £29.1m (from £37.68m to £66.79m) and Phase 2 costs are anticipated to increase by £21.43m (from £28m to £49.45m) yielding a total cost overrun of £50.53m. The Council's own arrangement for oversight of the project, as problems emerged, were inadequate. The project finances have now been restructured and remains fully funded through Business Rate growth via the EZ programme within the GBSLEP. The restructured deal provides additional benefits and risk mitigations to the Council and strong management is needed between BCC, GBSLEP and the PCLP to ensure that no further overspends occur on the remainder of the project. The Council is the Accountable Body.
- **Acivico:** is a Council wholly-owned company which has been poorly managed in recent years. The Council funded the write-off of a £10m deficit in 2017-18. The Council has put in place a refreshed management team during 2018-19 and involved a turnaround team to help the company attain greater financial stability. The Council will then make a decision as to the company's longer-term future. Early signs are that progress is being made and the Council's financial exposure is now better understood and more actively managed. It remains, however, a financial risk for the Council, albeit not on the scale of the risks outlined above.

49. There are other potential financial risks which are signposted in the Council's Draft Financial Plan 2019-2023, including the potential need to increase employer pension contributions, as well as additional service cost pressures, particularly in relation to social care service. The Council is prudent in recognising and articulating these risks.
50. However, the Council in our view faces a unique level of one-off risks. In addition, any failure to deliver on planned savings over the next three years, could also lead to a depletion of reserves. Having regard to these risks, we make the following recommendation:

**The Council is recommended to:**

**Finance**

- **continue to reduce the likelihood of the non-delivery of savings plans for 2019/20 and beyond through the delivery of clear plans and robust programme management arrangements**
- **broaden transformational work across the Council's financial plan for 2019/20 to 2022/23, to help deliver savings at scale to address the impact of the combined savings and budget pressure risks**
- **keep under close review the potential impact of one-off budget risks, such as the Commonwealth Games, Equal Pay and Amey, by:**
  - **continuing to strengthen its level of reserves; and**
  - **completing the development of contingency plans to minimise the effects of these risks should they crystallise.**

**What does the Council need to do next?**

51. Section 24 of The Local Audit and Accountability Act 2014 (Schedule 7), requires the Council to:

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

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







**Public Report**  
**Birmingham City Council**  
**Report to Audit Committee**  
**18 June 2019**



**Subject:** Equal Pay Update – June 2019

**Report of:** Corporate Director of Finance and Governance and the City Solicitor and Monitoring Officer

**Relevant Cabinet Member:** N/A

**Relevant O &S Chair(s):** N/A

**Report author:** Kate Charlton: 0121 303 2151;  
 kate.charlton@birmingham.gov.uk

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference:		
Is the decision eligible for call-in?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :		
Exempt Appendix 1 is exempt from public disclosure under paragraphs 4 and 5 of Schedule 12A of the Local Government Act 1972.		

## **1 Executive Summary**

- 1.1 The purpose of this report is to provide an update to the Committee as at June 2019 in relation to the ongoing liability of the Council in respect of equal pay claims brought under the Equality Act 2010. Equal pay continues to present a challenge for the Council. It should be noted that significant progress has been made in terms of managing claims and their resolution by way of agreement and settlement.

- 1.2 Exempt Appendix 1 is exempt from public disclosure under paragraphs 4 and 5 of Schedule 12A of the Local Government Act 1972. The exemptions relied on are as follows:
- 1.2.1 Sch. 12A para. 4 – ‘Information relating to any consultations or negotiations, or contemplated negotiations, in connection with any labour relations matter arising between the authority or Minister of the Crown and employees of, or office holders under, the authority’; and
- 1.2.2 Sch. 12A para. 5 – ‘Information in respect of which legal professional privilege could be maintained in legal proceedings.’
- 1.3 These provisions apply because the equal pay claims, and the reasons for them, are subject to legal proceedings and/or are subject to negotiations with solicitors acting for the claimants.

## **2 Recommendations**

- 2.1 That the Committee note the contents of the Report and Exempt Appendix 1.

## **3 Background**

- 3.1 The Equal Pay Act 1970 (now superseded by the Equality Act 2010) was an under-utilised piece of legislation, with few claims for many years. Following the National Single Status Agreement in 1997, attention was focused on pay structures within Local Authorities and NHS Trusts. ‘No win no fee’ lawyers started issuing claims for equal pay in the late 1990s and brought equal pay into the public arena.
- 3.2 During the last 12 years, there have been significant developments as a result of decided cases, which dramatically changed the scope of the Equal Pay Act and Equality Act, and the ability of local authorities to deal with the resultant litigation.
- 3.3 The Council’s intention has always been to provide a fair salary structure. Indeed, the process of producing and implementing a fair salary structure disclosed the inequalities and inconsistencies of the pay arrangements that existed prior to the implementation of the Council’s pay and grading scheme. Equal pay claims have been issued despite the Council actively pursuing a ‘Single Status’ agenda for its employees. The Council’s pay and grading scheme was intended to prevent any further claims, as all employees were to be fairly and equally remunerated for equal work.
- 3.4 Authority for the settlement of validly pleaded equal pay claims was first granted by Cabinet on 25 July 2011. Cabinet approved the proposed decision of the Chief Executive to settle all equal pay claims issued in the Employment Tribunal by employees of the Council subject to adequate financial provision.
- 3.5 Since that time, Cabinet has supported the decision of the Chief Executive to make certain pay settlements taken under delegated authority granted by the Cabinet Report dated 25 July 2011. Further approval to an updated equal pay

strategy was granted by Cabinet in July 2014, to include the establishment of the Cabinet Equal Pay Sub-Group comprising the Leader, Deputy Leader and Chief Executive, and again in July 2015, August 2017, February 2018 and December 2018. The Chief Executive has continued to authorise certain equal pay settlements in line with the strategy approved by Cabinet and the Cabinet Equal Pay Sub-Group.

3.6 Further background information is set out in Exempt Appendix 1.

## **4 Options considered and Recommended Proposal**

4.1 This Report is for noting.

## **5 Consultation**

5.1 The Leader of the Council, Councillor Ian Ward, and the Chief Executive, Dawn Baxendale, are aware of the matters raised in this report.

## **6 Risk Management**

6.1 Please see Exempt Appendix 1.

## **7 Compliance Issues:**

**7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

7.1.1 This Report is for noting only.

### **7.2 Legal Implications**

7.2.1 The power conferred by section 222 of the Local Government Act 1972, 'Power of local authorities to prosecute or defend legal proceedings', enables the Council to seek to settle equal pay claims.

### **7.3 Financial Implications**

7.3.1 The Council has made provision in its 2018/19 Statement of Accounts for the settlement of, and litigation costs associated with, any outstanding, validly pleaded equal pay claims. The cost of meeting equal pay liabilities will be predominantly funded from capital receipts under the flexibilities granted by Central Government. The provision and adequacy of planned funding are kept under regular review.

7.3.2 The revenue implications of equal pay settlements have been reflected in both the budget and the Council's Financial Plan in relation to later years. This includes capital financing costs arising from previous years' capital expenditure, loss of income and other costs arising from asset sales and the repayment of any temporary borrowing from reserves.

#### **7.4 Procurement Implications (if required)**

7.4.1 N/A

#### **7.5 Human Resources Implications (if required)**

7.5.1 N/A

#### **7.6 Public Sector Equality Duty**

7.6.1 All settlement strategies to date have endeavoured to limit any adverse equality impact.

### **8 Appendices**

8.1 Exempt Appendix 1

### **9 Background Documents**

9.1 Reports to Cabinet dated July 2011, July 2014 and 2015, August 2017, February 2018 and December 2018

9.2 Reports to Audit Committee dated September 2012, November 2013, November 2016 and January 2018

**BIRMINGHAM CITY COUNCIL****AUDIT COMMITTEE****18 JUNE 2019****SCHEDULE OF OUTSTANDING MINUTES**

<b>MINUTE NO./DATE</b>	<b>SUBJECT MATTER</b>	<b>COMMENTS</b>
99 26/03/2019	<b><u>Early Years Health and Wellbeing Risk</u></b> The Director, Education and Skills be requested to provide an update report.	November 2019 – update to be provided.

