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

# BIRMINGHAM CITY COUNCIL

## AUDIT COMMITTEE

**TUESDAY, 29 SEPTEMBER 2015 AT 14:00 HOURS**
**IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB**

## A G E N D A


| | | |
|---|---|---|
| | 1 | **NOTICE OF RECORDING**<br>Chairman to advise meeting to note that members of the press/public may record and take photographs except where there are confidential or exempt items. |
| | 2 | **APOLOGIES**<br>To receive any apologies. |
| **3 - 8** | 3 | **MINUTES - AUDIT COMMITTEE - 28 JULY 2015**<br>To note the public part of the Minutes of the last meeting. |
| | 4 | **DEMONSTRATION OF BIRMINGHAM AUDIT'S DATA WAREHOUSE**<br>There will be a demonstration of the data warehouse. |
| **9 - 12** | 5 | **RISK UPDATE - FUTURE COUNCIL PROGRAMME**<br>**Report of the Future Council Programme Manager** |
| **13 - 294** | 6 | **STATEMENT OF ACCOUNTS AND AUDIT FINDINGS REPORT 2014/15**<br>Report of the Director of Finance. |
| | 7 | **FUTURE AGENDA ITEMS**<br>To consider any future agenda items. |

8 **OTHER URGENT BUSINESS**

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

9 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

10 **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:-

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

11 **MINUTES - PRIVATE - AUDIT COMMITTEE - 28 JULY 2015**

Item Description

12 **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.

13 **STATEMENT OF ACCOUNTS AND AUDIT FINDINGS REPORT 2014/15 - PRIVATE**

Item Description

# BIRMINGHAM CITY COUNCIL

**AUDIT COMMITTEE**
**28 JULY 2015**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 28 JULY 2015 AT 1400 HOURS IN COMMITTEE ROOM 6, COUNCIL HOUSE, BIRMINGHAM**

**PRESENT:-**

Councillor Burden in the Chair;

Councillors Henley, Robinson and Tilsley.

******************************

**NOTICE OF RECORDING**

812 The Chairman advised, and the Committee noted, that members of the press/ public could record and take photographs except where there were confidential or exempt items.

---

**APOLOGIES**

813 Apologies were submitted on behalf of Councillors Afzal and Wood.

---

**MINUTES**

The Chairman in referring to the Birmingham Audit – Annual Report 2014/15 (minute no 803 refers) suggested and it was agreed that the following wording be added to point 1:-

In particular the Head of Internal Audit confirmed that she was happy with the current reporting lines and was satisfied these did not undermine her independence. Furthermore in the event of any such concerns regarding these arrangements arising in the future these could be raised with the Audit Committee.

With that addition it was:-

814 **RESOLVED**:-

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

---

**ANNUAL FRAUD REPORT 2014/15**

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

(See document No 1)

Neil Farquharson, Group Auditor – Corporate Fraud Team, and Kay Reid, Assistant Director, Audit and Risk Management, introduced the report and in response to Members' questions the following were amongst the points made:-

1. With regard to social housing fraud, there was an historic problem with some longstanding tenancy agreements and the disappearance of key documents making it more difficult to bring about a prosecution. However, it was an improving situation as documents were now scanned.

2. The Committee was advised that the Chairman had been briefed regarding on-going fraud cases.

3. The number of referrals received was not significant when compared with the size of the local authority.

4. Kay Reid expanded on the funding received from the Department for Communities and Local Government to provide a continuous fraud monitoring capability to run across the City Council's main financial systems referred to in paragraph 3 of the report.

The Committee congratulated officers on the work done regarding counter fraud activities and the fact that the number of referrals had fallen.

815 **RESOLVED**:-

That the report be noted.

---

**CORPORATE RISK REGISTER UPDATE**

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

(See document No 2)

Cynthia Carran, Principal Business Auditor, and Kay Reid, Assistant Director, Audit and Risk Management, responded to Members' questions and the following were amongst the points made:-

1. A new numbering system of the risks had been introduced. The register referred to both the old and new numbers.

2. In referring to 2015/16.11 – not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme, Members considered that the current level of risk: likelihood/impact of Medium/High was too low and should be increased. Members raised a number of other areas of concern and requested a briefing from the Lead Officer at the September meeting of the Committee.

3. It was agreed that further information be circulated to Members regarding risk 2015/16.10 – resolution of contractual issues in the Highway Maintenance and Management PFI contract.

4. Kay Reid briefly explained ref no 2015/16.18 – Ineffective Corporate Risk Marker IT solution (Issue).

816 **RESOLVED**:-

(i) That the Committee agrees that the ratings assigned to the risks are reasonable and that action being taken is effective, particularly where the risk ratings have remained static;

(ii) that approval be given to one new risk as follows:-

2015/16.11 – Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme;

(iii) that approval be given to the proposed re-wordings, amendments (including deletions) and re-numbering of the risks;

(iv) that this Committee receives, at the September meeting, an update of the management of risk 2015/16.11 – not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.

(v) that further information be provided on issues raised by Members as set out in the pre-amble.

---

**2014/15 ANNUAL GOVERNANCE STATEMENT**

The following report of the Director of Finance was submitted:-

(See document No 3)

Jon Warlow, Director of Finance, and Sarah Dunlavey, Assistant Director, Financial Services, introduced the report.

Councillor Tilsley, in referring to paragraph 3.20 of the report concerning the Council's code of conduct for Members, questioned whether the £25 limit before needing to register gifts and hospitality offered or received should be revised and uplifted. He made the point that the limit had been in place for some considerable time but had never been uplifted for inflationary increases. Jon Warlow undertook to bring the matter to the attention of the Director of Legal Services for his consideration.

817 **RESOLVED**:-

(i) That the Annual Governance Statement, to be included in the 2014/15 Statement of Accounts, be approved;

(ii) that the arrangements for the management of the items included in Section 6 be reported to this Committee in November 2015 and March 2016.

---

**STATEMENT OF ACCOUNTS 2014/15**

The following report of the Director of Finance was submitted:-

(See document No 4)

Councillors Henley, Robinson and Tilsley declared non-pecuniary interests insofar that the report referred to organisations on which they served.

Sarah Dunlavey, Assistant Director, Financial Services, and Martin Stevens, Head of City Finance Accounts, gave a powerpoint presentation:-

(See document No 5)

A debate ensued with issues being raised throughout the presentation and the following were amongst the points covered:-

1. Pension liabilities – Local Government Pension Scheme.

2. The NEC Pension Scheme, group accounts, loan stock and implications of the sale of the National Exhibition Centre (NEC).

3. Accounting policies.

4. Purchase of closed pension funds.

5. Judgement of materiality.

6. Paradise redevelopment – Information requested regarding the status of the funding received from the Greater Birmingham and Solihull Local Enterprise Partnership.

7. Acivico Limited relating to the timing and publishing of the accounts.

8. Proposed changes to the contents and the increased complexity of the accounts in future years.

9. Changes in group structure – InReach (Birmingham) Ltd.

10. Review of the levels of insurance and re-positioning the level of risk.

11. Information requested concerning the implications of the occurrence of a significant event.

12. National Non Domestic Rate Appeals – Outturn report considered by Cabinet to be circulated to Members.

13. Public Work Loans Board – Information requested by Members regarding the average interest rate.

818 **RESOLVED**:-

(i) That the draft Statement of Accounts 2014/15 be received;

(ii) that the accounting policies at note 1 of the Statement of Accounts be approved;

(iii) that the arrangements for the audit of the accounts and public inspection be noted.

---

**GRANT THORNTON – PROGRESS REPORT**

Richard Percival and Phil Jones, Grant Thornton, in referring to the statement of accounts 2014/15 considered earlier in the meeting (minute no 818 refers), praised the work of officers involved in producing the accounts, advised the Committee that they were comfortable with the information contained therein and pointed out that the Council was on course to deliver the audit to the agreed timetable.

Members noted that there had been an improvement on previous years and congratulated officers for their work in producing the accounts.

819 **RESOLVED**:-

That the points raised in the pre-amble be noted.

---

**HOLIDAY PAY – UPDATE**

The following report of the Head of Employment Law was submitted:-

(See document No 6)

Kate Charlton, Head of Employment Law, introduced the report.

820 **RESOLVED**:-

That the report be noted.

---

**OTHER URGENT BUSINESS**

**Write Off Schedule/Corporate Revenue Monitoring Report – Month 2**

In response to a request by Councillor Tilsley it was:-

821 **RESOLVED**:-

That the write off schedule/corporate revenue monitoring report – month 2 considered by Cabinet at its meeting on 27 July 2015 be submitted to a future meeting of the Audit Committee.

---

**AUTHORITY TO CHAIRMAN AND OFFICERS**

822 **RESOLVED**:-

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

---

**EXCLUSION OF THE PUBLIC**

823 **RESOLVED**:-

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

| **Agenda Item etc** | **Paragraph of Exempt Information Under Revised Schedule 12A of the Local Government Act 1972** |
| --- | --- |
| Holiday Pay - Update | 3 and 4 |

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **Audit Committee** |
| **Report of:** | **Future Council Programme Manager** |
| **Date of Meeting:** | **29th September 2015** |
| **Subject:** | **Risk Update - Future Council Programme** |
| **Wards Affected:** | **All** |

## 1. Purpose of Report

1.1 To update the Audit Committee in relation to Corporate Risk 2015/16.11 - Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.

## 2. Update on Current Position

From a leadership perspective, the Leader and Chief Executive have stated clearly in letters to, and meetings with, the Independent Improvement Panel that BCC will fully implement the actions to address issues in the Kerslake Report. The Panel has stated in response that they are broadly satisfied with the actions underway and the structure and activity of the Future Council Programme. However they remain focused on three key areas:

- The pace of change and maintaining delivery
- Transparency of leadership and wider engagement with communities
- Sustainability and the funding for the Future Council programme

2.1 To provide more detail, the following key activities have been undertaken:

Implementation of the Future Council Programme (and the Kerslake Action plan has been incorporated ):

- Each of the sub programmes has a project plan, risk register and functioning governance arrangements in the form of a sub programme board. In addition they have a group of 'Link Members' (Cabinet member leads) who provide guidance and challenge from a member perspective. All current and future activity is being recorded within the project management tool - Verto.
- A Task and Finish Scrutiny Committee has been set up (Chair: Councillor Zafar) to oversee the Future Council programme. This has met and agreed engagement as its first priority.

- Programme management has been strengthened. A new programme manager has been appointed along with a programme planner, and there is one overall plan for the programme. All necessary supporting project documentation is in place.

- The Programme Board has been reviewed / reconstituted, and includes the senior responsible officers (SROs) for each of the sub programmes. The Board meets fortnightly and agendas include coverage on key risks as part of the 'highlights report' presented by the Programme Manager.

- Risks and issues are being debated / mitigated at each sub programme level, and escalated to the Programme Board if mitigation is not possible at that level.

- The Future Council Programme budget has been agreed and is being supplemented with funding from the Department for Communities and Local Government. This means that funding is secure for at least the next two years. Additional capacity can be procured to ensure that implementation is swifter. For example: resources to support greater community engagement, member development, additional resource to challenge and implement the ideas coming from the operating model 'Demand' work and increased communications / ICT capacity

- The Kerslake actions are a sub set of the programme and delivery is being monitored on a monthly basis. The first Kerslake monitoring report has been signed off by the Board and submitted to the Birmingham Independent Improvement Panel.

- Progress of the Future Council programme is reviewed weekly at Leaders Briefing with the Leader and Deputy Leader includes risks. Updates are provided to the Chief Executive and Strategic Directors weekly and the Programme Board meets fortnightly. The governance structure is attached.

2.2 The current level of risk - Medium / High, is considered to be appropriate, with a target risk rating of Low / High.

## 3. Recommendations

3.1 That the Audit Committee note the update to risk 2015/16.11 and the following planned activities to further mitigate this risk:

- Continuing engagement of Cabinet and CLT overseeing programme delivery.
- Ongoing reporting on progress to the Birmingham Independent Improvement Panel (next report October)

- Formalisation of the risk management processes.
- Refinement of the project management tool and creation of management reports.
- Consistent monthly focus on delivery of the Kerslake actions.

## 4. Legal and Resource Implications

4.1 The work carried out is within approved budgets.

## 5. Risk Management and Equality Analysis Issues

5.1 Risk management forms an important part of the internal control framework within the Council. The Council's risk management strategy has been Equality Impact Assessed and was found to have no adverse impacts.

## 6. Compliance issues

6.1 City Council policies, plans and strategies have been complied with.

………………………………………………………..
**Sarah Homer**

**Interim Director Service Delivery**

**Contact Officer:** **Gillian Connolly, Future Council Programme Manager**
**Telephone No:** **07885 235684**

**E-mail address:** gillian.connolly@birmingham.gov.uk

**BIRMINGHAM CITY COUNCIL**

**PUBLIC REPORT**

| | |
|---|---|
| **Report to:** | **AUDIT COMMITTEE** |
| **Report of:** | **Director of Finance** |
| **Date of Decision:** | **29th September 2015** |
| **SUBJECT:** | **STATEMENT OF ACCOUNTS AND AUDIT FINDINGS REPORT 2014/15** |
| **Wards Affected: All** | |

## 1. Purpose of Report

1.1 To report the unqualified audit opinion on the 2014/15 accounts and Grant Thornton's Audit Findings Report summarising the significant outcomes, conclusions and recommendations from external audit work for 2014/15 including Final Accounts and Value for Money opinion and to submit for approval the final Statement of Accounts for 2014/15.

## 2. Decisions recommended:

That Audit Committee:

2.1 Notes the Audit Findings Report from Grant Thornton and accepts the recommendations in Appendix A.

2.2 Approves the final Statement of Accounts 2014/15 which will receive an unqualified opinion from the Auditor.

2.3 Approves the Letter of Representation from the Director of Finance


**Contact Officers:**
**Jon Warlow**
**Telephone No:** 0121 303 2950
**E-mail address:** jon.warlow@birmingham.gov.uk

**Sarah Dunlavey**
**Telephone No:** 0121 675 8714
**E-mail address:** sarah.dunlavey@birmingham.gov.uk

## 3. Compliance Issues:

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

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
Section 151 of the Local Government Act requires the Director of Finance (as responsible officer) to ensure proper administration of the City Council's financial affairs.

3.4 Will decision(s) be carried out within existing finances and resources?
Yes.

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
The issues raised in this report are largely of a technical financial nature.

## 4. Relevant background/chronology of key events:

4.1 The draft Statement of Accounts was signed by the Director of Finance on 30 June 2015.

4.2 Officers have worked closely with Grant Thornton to address issues raised in previous action plans and to deliver working papers to their requirements.

4.3 The Accounts need to be signed by 30 September 2015 to enable all statutory deadlines to be met.

4.4 The Audit Findings Report at Appendix 1 notes that an unqualified opinion in respect of the 2014/15 accounts is expected but with an emphasis of matter. The emphasis of matter relates to the Council's equal pay liability, specifically to the uncertain outcomes and consequential difficulty in accurately quantifying the value of claims made under Equal Pay legislation and was first raised in 2012/13.

4.5 The Audit Findings Report provides information about Grant Thornton's work on the Council's financial standing, internal control and value for money. Further detail on the value for money audit work is provided in the Annual Audit Letter which will be reported at the November meeting. The council has received a qualified "except for" Value for Money conclusion.

4.6 The Audit Findings Report includes a number of recommended actions which the Council needs to address in the coming year. The Audit Findings Report is attached as Appendix 1 and the recommendations are included in Appendix A of that report. The Council is required to respond formally to these recommendations and will bring a report to the next Audit Committee.

4.7 A Letter of Representation is required to be sent to the external auditor by the Council's Section 151 Officer. This advises the auditor of any material matters which have occurred since the draft Statement of Accounts were signed and which might impact on the accounts and the audit. The letter is included at Appendix 2.

## 5. Material Adjustments

5.1. There were four material adjustments to the single entity accounts and one to the group accounts. Three of the adjustments related to the disposal of the NEC which was a highly complex transaction requiring technical judgements and interpretation. One adjustment was due to a refinement of our interpretation of the accounting treatment voluntary aided, voluntary controlled and foundation schools. Both issues are covered in detail in the Audit Findings Report. The fifth adjustment (£3m) is a correction of an error in the treatment of an instalment payment.

5.2. There were no material unadjusted items.

## 6 Recommendations

6.1 Members are recommended to approve the revised Statement of Accounts at Appendix 3, and to accept the Audit Findings Report recommendations from Grant Thornton and to approve the Letter of Representation.

**Signatures** :

Chief Officer: …………………………………………………………

Dated: …………………………………………………………

**List of Background Documents used to compile this Report:**
The Code of Practice
Audit Findings Report 2013/14
Annual Audit Letter 2013/14

30th September 2015

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

Dear Sirs

**Birmingham City Council**
**Financial Statements for the year ended 31 March 2015**

This representation letter is provided in connection with the audit of the financial statements of Birmingham City Council and its subsidiary undertakings (as listed in Note 48 of the Council's financial statements), for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the group and parent Council financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

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

**Financial Statements, including group financial statements**

i I have fulfilled our responsibilities for the preparation of the group and parent Council financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("the Code") which give a true and fair view in accordance therewith.

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

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

iv I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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

vii Except as disclosed in the financial statements:
   a there are no unrecorded liabilities, actual or contingent
   b none of the assets of the group or parent Council has been assigned, pledged or mortgaged
   c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii I confirm that I am satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. I confirm that all settlements and curtailments have been identified and properly accounted for. I also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the group financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii I have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes (except for those identified as not amended) and are free of material misstatements, including omissions.

xiii I have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions

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

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

xvi I have considered the impact of the Council's Equal Pay claims liability and I am satisfied that the Council can manage its cash flow through the sale of assets to meet all of its current Equal Pay liabilities.

**Information Provided**

xvii I have provided you with:

- a access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
- b additional information that you have requested from us for the purpose of your audit; and
- c unrestricted access to persons within the group and parent Council from whom you determined it necessary to obtain audit evidence.

xviii I have communicated to you all deficiencies in internal control of which management is aware.

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

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

xxi I have disclosed to you all our knowledge of fraud or suspected fraud affecting the group and parent Council involving:

- a management;
- b employees who have significant roles in internal control; or
- c others where the fraud could have a material effect on the financial statements.

xxii I have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, regulators or others.

xxiii I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing group and parent Council financial statements.

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

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

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

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

b) Equal Pay - measurement. I confirm that the measurement method, including related assumptions and models is appropriate and have been consistently applied. I also confirm that we have provided you with all information available to us that could impact on the estimated value of the Council's liability.

c) Equal Pay – recognition. I confirm that the receipt of an Equal Pay claim is the appropriate point at which to recognise the Council's liability and this recognition criteria has been consistently applied. I also confirm that it is not possible to accurately estimate the volume, type or value of future equal pay claims. I have reached this conclusion due to the number of variables impacting on the claim including future court judgement, the number of claims the Council receives, the settlement amount for claims, and any costs in respect to taxation

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

e) Council Tax bad debt provision. I confirm that the Council considers that a further provision for irrecoverable Council Tax is not required.

**Other representations**

xxvii For investment properties I have considered the Council's accounting policy and confirm that the Council does not hold properties for investment purposes.

xxviii The Council has considered the need to generate capital receipts and is satisfied that it has appropriate plans in place to generate sufficient capital receipts in 2015/16 and 2016/17.

xxix As contractual arrangements are not in place the Council confirms that it has adequate plans in place to generate the forecast capital receipts

xxx If the Council is unable to generate sufficient capital receipts to meet its equal pay liabilities it could either defer the payments or utilise reserves

xxxi The Council is satisfied that it will be able to deliver sufficient savings or utilise reserves to enable it to meet its 'financial duties'.

**Annual Governance Statement**

xxxii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Approval**

xxxiii The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 29th September 2015.

Yours faithfully

Jon Warlow

Director of Finance

Signed on behalf of the Council

Birmingham City Council

# Statement of Accounts 2014/15

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## Foreword to the Accounts

### 1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council for the period from 1 April 2014 to 31 March 2015. The financial statements have been prepared in accordance with the 2014/15 Code of Practice on Local Authority Accounting (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

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

### 2 Background to 2014/15

2.1 The Council has been the subject of a number of external reviews, which have included :

- The Le Grand safeguarding review
- The Kershaw and Clarke education reports
- The Lord Kerslake Governance Review of Birmingham City Council

2.2 The Council is also facing extraordinary financial pressures with savings of £112.9m required in 2015/16 and further savings of £253.3m required by 2017/18 as a consequence of the Government's policy of reducing public expenditure in order to assist in addressing the deficit in the national public finances and other pressures.

2.3 To meet these challenges the Council is creating one strategic change framework, the Future Council programme, by which it will oversee the necessary change identified whilst managing within the available resources. There are absolute timelines, some of which have been externally set that require the Council to deliver its planned outcomes at a significant pace.

2.4 The way the Council will do this will be based on its vision of an inclusive City, seeking at all times to work for a better future for Birmingham and its citizens despite the difficult financial circumstances. The Policy Framework is based on the goals of:

- A Fair City
- A Prosperous City
- A Democratic City

2.5 Despite the pressures on the Council real achievements have been delivered during the year, including:

A Fair City

- Improvements in safeguarding services;
- Implementing priorities identified by the Community Safety, Police and Crime Board including actions on child sexual exploitation, domestic violence, youth violence, vulnerable people and business-related crime;
- Health and Wellbeing Plans for each District;
- Creation of a more effective and transparent housing allocation system;
- Establishment of the Child Poverty Commission to ensure that every child has the opportunity to fulfil their potential;
- Launch of the Birmingham Promise to provide fairness in public services.

A Prosperous City

- Agreement of the funding and implementation of Birmingham's Youth Promise;
- Support for the iCentrum development;
- Significant progress with the City Centre Enterprise Zone;
- Launch of Birmingham Connected, the Council's 20 year vision for the future transport in the city;
- Start on the redevelopment of Paradise Circus;
- Completion of a Council commissioned report on Birmingham's Blueprint for Low Carbon Refuelling Infrastructure;
- Continuing the lead of the Digbeth Social Enterprise Quarter Steering Group;
- Development of a Women's Enterprise Hub at the Southside Enterprise Centre.

A Democratic City

- Design and commencement of the Future Council programme that will transform the way the Council operates;
- Consultation on a Community Governance Review addressing the proposal for a town council in Sutton Coldfield and also reviewing local governance across the City;
- Development of the Standing Up for Birmingham campaign;
- Development of an innovative "Policy Community" of local and national community groups.

## 3 National Exhibition Centre Disposal

3.1 On 16 January 2015, the Council announced that it had entered into a binding agreement to sell The National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

3.2 The sale agreed, involved a number of transactions, the key ones of which were:

- Disposal of the Council's interests in NEC Ltd
- The transfer of the on-going funding of the NEC defined benefit pension schemes being transferred to a wholly owned subsidiary of the Council
- The termination and re-signing of existing lease agreements

3.3 The assets held in the Council's financial statements that are related to the disposal of the NEC have been categorised as Assets Held for Sale. Additional information has been included in the relevant notes for clarity.

3.4 The sale was completed on 1 May 2015.

## 4 The Financial Statements

4.1 The pages which follow contain the Council's Financial Statements for the year ended 31 March 2015, with comparative figures for the previous financial year, and comprise:

The Main Financial Statements

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

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

4.3 The Comprehensive Income and Expenditure Statement (CIES) – provides the accounting cost in year of delivering services, in a specified format, in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or from rents for Council dwellings. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. Details of the Council's management accounts have been provided in the Financial Outturn Report to Cabinet on 29 June 2015, which is summarised in paragraph 6 below.

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

The 2014/15 CIES shows a reduction of £275.6m in the net cost of services compared to 2013/14, which is primarily as a result of:

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

4.4 Balance Sheet – shows the value of assets and liabilities recognised by the Council at 31 March 2015 and the level of reserves, split between usable, that is those that may be used to provide services, and unusable, that is those that may not be used to provide services. Unusable reserves include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets were to be sold and reserves that hold timing differences.

The net liability has increased to £1,228.0m, mainly as a result of the increase in the net liability on defined benefit pension schemes of £489.0m, further details of which are set out Notes 10, 11 and 12. The Council is addressing the liability in accordance with external requirements and its accounting policies, over both the medium and longer term.

Notwithstanding the net liability position, the Council can continue to meet its financial commitments as they occur via the delivery of its financial strategy and achievement of its budget as set out in the Council's Business Plan 2015+.

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

Supplementary Statements

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

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

Group Accounts

4.8 The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest is considered material. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries
Acivico Limited
Birmingham Museums Trust
Innovation Birmingham Limited
National Exhibition Centre Limited Group (including NEC Finance Plc)
National Exhibition Centre (Developments) Plc
Performances (Birmingham) Limited

Associates
Birmingham Airport Holdings Limited
Service Birmingham Limited

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

## 5 Accountable Body Roles

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

## 6 Summary of the Council's Financial Performance for the year ended 31 March 2015

6.1 Revenue Expenditure

6.1.1 The Council's revenue and capital budgets are allocated between three directorates with some other budgets being managed corporately. Spending against these budgets is carefully monitored throughout the year and reported to Cabinet monthly. The year-end outturn position was reported to Cabinet on 29 June 2015.

6.1.2 Following net appropriations to reserves of £3.2m the Directorate net underspend was £0.3m. The table below gives a summary of the General Fund year-end outturn variation by Directorate.

| Directorate | Outturn Variation over/(under) spend | Year-end Transfers to/(from) reserves | | | In Year Variation (to)/from balances |
|---|---|---|---|---|---|
| | | Grant | Other | Total | |
| | £m | £m | £m | £m | £m |
| **People Directorate** | **3.464** | **3.938** | **(7.452)** | **(3.514)** | **(0.050)** |
| **Economy Directorate** | **(4.609)** | **2.223** | **2.141** | **4.364** | **(0.245)** |
| | | | | | |
| **Place Directorate** | | | | | |
| Place Directorate (excluding District Services) | (2.036) | 2.063 | (0.047) | 2.016 | (0.020) |
| District Services | (0.357) | - | 0.357 | 0.357 | - |
| **Sub-total Place Directorate** | **(2.393)** | **2.063** | **0.310** | **2.373** | **(0.020)** |
| | | | | | |
| **Total Directorate Expenditure** | **(3.538)** | **8.224** | **(5.001)** | **3.223** | **(0.315)** |
| Less Transfer from School Balances | | | 8.915 | | |
| **Directorate Total Excluding School Balances** | | | **3.914** | | |

6.1.3 A net underspending of £5.5m on corporate accounts has been carried forward as part of balances and will be used to mitigate future savings and/or deliver the transformational change of the Council.

6.2 Capital Expenditure

6.2.1 Total reported expenditure on Directorate capital schemes in 2014/15 was £400.8m (2013/14: £262.3m), compared to the revised capital budget of £485.9m (2013/14: £510.7m). The reported variance of £85.1m is mainly as a result of delays in expenditure on a number of capital schemes (£97.1m). Details of this slippage are given in the Council's Capital Outturn report for 2014/15. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

| Directorate | Capital Revised Budget | Capital Outturn | Capital Variance |
|---|---|---|---|
| | £m | £m | £m |
| People Directorate | 54.6 | 53.6 | (1.0) |
| Economy Directorate | 252.1 | 182.0 | (70.1) |
| Place Directorate | 179.2 | 165.2 | (14.0) |
| | | | |
| **Total Directorate Capital Expenditure** | **485.9** | **400.8** | **(85.1)** |
| | | | |
| PFI and Finance Lease Assets | | 50.6 | |
| Adjustment in respect of payment in advance | | (3.3) | |
| | | | |
| **Total Capital Expenditure** | | **448.1** | |

The adjustment in respect of the payment in advance reflects the expenditure incurred on the purchase of an asset that will be transferred at a later date.

6.3 Material Assets Acquired

6.3.1 During the year, work was completed on the refurbishment of the National Indoor Arena whilst a number of major projects have progressed, including New Street Station (Gateway) and Grand Central redevelopments and Housing improvements and redevelopments.

6.4 Capital Financing

6.4.1 The financing arrangements in respect of capital expenditure in 2014/15 are summarised below:

| Financing Method | £m |
|---|---|
| Borrowing | 144.8 |
| Government Grants | 94.7 |
| Other Grants and Contributions | 28.6 |
| Use of Capital Receipts – HRA | 17.7 |
| Use of Revenue Resources – HRA | 97.6 |
| Use of Revenue Resources – General Fund | 14.1 |
| PFI and Finance Leases | 50.6 |
| **Total Financing** | **448.1** |

6.4.2 During the financial year ended 31 March 2015, the Council took £45.7m of long term loans. The Council also maintained a significant short term loan debt portfolio during the year, taking advantage of historically low short term interest rates. Total debt remained within the Council's authorised limit.

6.4.3 Further details of the Council's financial liabilities are given in Notes 39 and 40 to these financial statements. Full details regarding the financing of capital expenditure and the acquisition and disposal of non-current assets are given in Notes 21 to 23 to these financial statements.

6.5 Service Concession Arrangements and Similar Contracts

6.5.1 The Council has entered into a number of Service Concession arrangements, formerly classed as Private Finance Initiatives and similar contracts across Schools, Waste Management and Highways services to deliver improvements in infrastructure and future service delivery. As a result of the schemes, the Council has a future liability to the end of the contracts of £469.6m as at 31 March 2015.

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

6.6 Pension Liabilities

6.6.1 For the Local Government Pension Scheme, there is currently a net pension liability that is reviewed periodically by the West Midlands Metropolitan Authorities Pension Fund Actuary. The Council's share of the total pension shortfall is £2,293.6m at 31 March 2015. Whilst the figure is substantial it should be noted that:

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

- There is a 21 year recovery plan which has been built into the Council's financial plans;

- It is not unique to Birmingham City Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 11 and 12 to these financial statements.

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

6.7 Provisions

Equal Pay

6.7.1 The Council has continued to receive claims in respect of the Equal Pay Act 1970 up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received up to 31 March 2015.

National Non Domestic Rates

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

6.7.3 The Council, as Billing Authority, is required to make a provision for this liability. The financial statements include a provision to cover the Council's share of the estimated liability for the settlement of all appeals received up to 31 March 2015 but which remained unsettled. However, regulations permit local authorities to spread the impact over a period of 5 years up to 2017/18. A share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority.

6.8 Reserves

6.8.1 The Council maintains two types of reserves:

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

6.8.2 Details of the reserves are set out below. The reserves as at 31 March 2014 have been restated to reflect the prior period adjustments in respect of accounting for schools as detailed in paragraph 7 below.

| | 31 March 2014 (Restated) £m | 31 March 2015 £m |
|---|---|---|
| Usable Reserves | 653.0 | 626.0 |
| Unusable Reserves | (1,379.0) | (1,854.0) |
| **Total** | **(726.0)** | **(1,228.0)** |

6.8.3 Taking the usable and unusable reserves together the Council's net liabilities at 31 March 2015 have increased by £502.0m to £1,228.0m. The increase in net liabilities is primarily due to the increase in liabilities for pensions that will mainly fall due over the medium to longer term and due to the transfer of 13 schools to Academy status. Details of the pension liabilities are set out in Notes 10, 11 and 12 to these financial statements.

6.8.4 The Council has included financial assumptions for resourcing these liabilities in its long term financial plan, Business Plan 2015+.

## 7 Changes in Accounting Policy

Adoption of Accounting Standards

7.1 Accounting standards have been adopted for the first time in respect of:

- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities

7.2 The major impact in respect of the above changes has been the consideration of accounting for local authority maintained schools, which the Council has previously consolidated into its entity accounts. Local authority maintained schools are considered to be entities where the balance of control lies with the Council and therefore the transactions in respect of the income and expenditure and the assets and liabilities of these schools falls within the Council boundary for consolidation purposes. The guidance issued by the Chartered Institute of Public Finance and

Accountancy (CIPFA) requires that school transactions should be reported within the Council's entity financial statements rather than through consolidation in the Council's Group Accounts. This is consistent with the treatment of local authority maintained schools in the Council's accounts in previous years and there is, therefore, no change in the Council's accounting arrangements.

7.3 The Council has reviewed its collaborative activities with other third party organisations and determined that the implementation of these accounting standards has not impacted on the Council's financial statements, although additional disclosures have been made to ensure clarity for the readers of the accounts.

Accounting for Schools' Non-Current Assets

7.4 The Council has reviewed its accounting policy in respect of non-current assets in local authority maintained schools. Historically, the Council has recognised land and building assets for community schools but only recognised building assets for Voluntary Controlled (VC), Voluntary Aided (VA) and Foundation Schools. The Council has considered:

- 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* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)

7.5 The Council has reviewed, on a case by case basis, the control arrangements around the use of school assets and has included them within the Balance Sheet where it can reasonably be demonstrated that an asset meets the criterion of a resource controlled by the Council as a result of past events and from which future economic benefits or service potential are expected to flow to the Council. The impact of this change in accounting policy is set out in Note 5, Prior Period Adjustments.

## 8 Future Revenue and Capital Expenditure Plans

8.1 National announcements indicate that there will continue to be a need to make a significant level of further savings in future years until 2019/20, although there is some uncertainty about the scale and timing of these reductions. Following the Summer Budget it is anticipated that further information will be available in the Spending Review expected in the autumn.

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

8.3 However, the Council has recognised that the need to make such large on-going savings requires a different approach to be adopted for 2016/17 onwards, through the Future Council Programme, involving a fundamental review of the role of the Council in meeting the needs of customers, and embracing joint working both across Council directorates and with partners.

8.4 The Council's key capital priorities are addressed through the three-year capital programme, totalling £1,046m in the Business Plan 2015+. The Council continues to pursue major initiatives taking advantage of the availability of external capital resources, with the programme including £246m of Government grants and other external contributions. The programme also incorporates borrowing proposals set out in the approved Enterprise Zone Investment Plan, the cost of which will be supported from projected business rates growth in the Enterprise Zone area.

8.5 Full details of the 2015/16 Revenue and Capital Budgets can be found within the Business Plan 2015+ approved by Council on 3 March 2015, via www.birmingham.gov.uk

# CORE FINANCIAL STATEMENTS 2014/15

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves. The detail for 2013/14 has been restated to reflect the impact of changes in accounting for schools, set out in Note 5, Prior Period Adjustments.

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Capital Receipts | Major Repairs Reserve | Capital Grants Unapplied Account | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | **£m** | £m | **£m** |
| **Balance at 31 March 2013 (Restated)** | **26.9** | **259.3** | **2.4** | **46.4** | **52.0** | **128.9** | **515.9** | **(1,535.2)** | **(1,019.3)** |
| **Movement in Reserves during 2013/14** | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | (391.8) | | 33.2 | | | | **(358.6)** | | **(358.6)** |
| Other Comprehensive Income and Expenditure | | | | | | | **-** | 651.9 | **651.9** |
| **Total Comprehensive Income and Expenditure** | **(391.8)** | **-** | **33.2** | **-** | **-** | **-** | **(358.6)** | **651.9** | **293.3** |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | 539.7 | - | (31.2) | (18.9) | (7.4) | 13.5 | **495.7** | (495.7) | **-** |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **147.9** | **-** | **2.0** | **(18.9)** | **(7.4)** | **13.5** | **137.1** | **156.2** | **293.3** |
| Transfers to/(from) Earmarked Reserves (Note 8) | (89.0) | 89.0 | | | | | **-** | | **-** |
| **Increase/Decrease in 2013/14** | **58.9** | **89.0** | **2.0** | **(18.9)** | **(7.4)** | **13.5** | **137.1** | **156.2** | **293.3** |
| **Balance at 31 March 2014** | **85.8** | **348.3** | **4.4** | **27.5** | **44.6** | **142.4** | **653.0** | **(1,379.0)** | **(726.0)** |
| **Movement in Reserves during 2014/15** | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | (136.4) | | 65.4 | | | | **(71.0)** | | **(71.0)** |
| Other Comprehensive Income and Expenditure | | | | | | | **-** | (430.9) | **(430.9)** |
| **Total Comprehensive Income and Expenditure** | **(136.4)** | **-** | **65.4** | **-** | **-** | **-** | **(71.0)** | **(430.9)** | **(501.9)** |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | 187.6 | | (65.3) | (11.2) | (28.8) | (38.3) | **44.0** | (44.1) | **(0.1)** |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **51.2** | **-** | **0.1** | **(11.2)** | **(28.8)** | **(38.3)** | **(27.0)** | **(475.0)** | **(502.0)** |
| Transfers to/(from) Earmarked Reserves (Note 8) | 0.8 | (0.8) | | | | | **-** | | **-** |
| **Increase/Decrease in 2014/15** | **52.0** | **(0.8)** | **0.1** | **(11.2)** | **(28.8)** | **(38.3)** | **(27.0)** | **(475.0)** | **(502.0)** |
| **Balance at 31 March 2015** | **137.8** | **347.5** | **4.5** | **16.3** | **15.8** | **104.1** | **626.0** | **(1,854.0)** | **(1,228.0)** |

## 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. The detail for 2013/14 has been restated to reflect the impact of the changes arising from the changes in accounting for schools and the changes in respect of pension cost allocation and trading accounts set out in Note 5, Prior Period Adjustments.

| 2013/14 (Restated) | | | | | 2014/15 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | **Continuing Operations** | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 24.1 | (20.5) | 3.6 | Central services to the public | | 20.1 | (13.5) | 6.6 |
| 185.7 | (49.9) | 135.8 | Cultural and Related Services | | 185.1 | (33.1) | 152.0 |
| 123.4 | (33.8) | 89.6 | Environmental and Regulatory Services | | 105.1 | (44.2) | 60.9 |
| 74.1 | (57.0) | 17.1 | Planning Services | | 68.3 | (62.1) | 6.2 |
| 1,381.3 | (952.5) | 428.8 | Children's and Education Services | | 1,178.7 | (900.1) | 278.6 |
| 173.3 | (40.9) | 132.4 | Highways and Transport Services | | 135.2 | (33.1) | 102.1 |
| 191.3 | (280.6) | (89.3) | Housing Revenue Account (Local Authority Housing) | | 182.8 | (289.1) | (106.3) |
| 667.2 | (571.7) | 95.5 | Housing General Fund | | 641.2 | (571.1) | 70.1 |
| 400.6 | (82.7) | 317.9 | Adult Social Care | | 374.2 | (96.7) | 277.5 |
| 71.3 | (79.6) | (8.3) | Public Health | | 73.4 | (81.9) | (8.5) |
| 46.5 | (6.2) | 40.3 | Corporate and Democratic Core | | (2.1) | (2.2) | (4.3) |
| (6.5) | - | (6.5) | Non Distributed Costs | | 46.4 | - | 46.4 |
| **3,332.3** | **(2,175.4)** | **1,156.9** | **Total Cost Of Services** | | **3,008.4** | **(2,127.1)** | **881.3** |
| 220.4 | | 220.4 | Other Operating Expenditure | 14 | 137.5 | | 137.5 |
| 323.2 | (91.7) | 231.5 | Financing and Investment Income and Expenditure | 15 | 324.7 | (86.5) | 238.2 |
| 16.8 | (1,267.1) | (1,250.3) | Taxation and Non-Specific Grant Income | 16 | 5.4 | (1,191.4) | (1,186.0) |
| | | **358.5** | **(Surplus) / Deficit on Provision of Services** | | | | **71.0** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (285.5) | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | 21 & 22 | | | (116.1) |
| | | 91.8 | Impairment losses on non-current assets charged to the revaluation reserve | 21 & 22 | | | 124.2 |
| | | (457.8) | Remeasurement of the net defined benefit liability | 12 | | | 423.1 |
| | | **(651.5)** | | | | | **431.2** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (0.4) | (Surplus) / deficit on revaluation of available for sale financial assets | | | | (0.4) |
| | | **(0.4)** | | | | | **(0.4)** |
| | | **(651.9)** | **Other Comprehensive (Income) / Expenditure** | | | | **430.8** |
| | | **(293.4)** | **Total Comprehensive (Income) / Expenditure** | | | | **501.8** |

<u>Exceptional Items</u>

A major reason for the reduction in the Cost of Services is the sum included as a provision for potential liabilities under Equal Pay legislation, £7.9m in 2014/15 (2013/14: £95.8m). Further details of the provision are given in Note 32. The impact of this provision is reversed out through the Movement in Reserves Statement so that it does not fall as a charge to Council Tax until payment is made.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Balance Sheet has been restated for 2012/13 and 2013/14 to reflect the impact in the changes in accounting for local authority maintained schools, set out in Note 5, Prior Period Adjustments.

| 01 April 2013 (Restated) | 31 March 2014 (Restated) | | Note | 31 March 2015 |
|---|---|---|---|---|
| £m | £m | | | £m |
| 4,850.3 | 4,799.1 | Property, Plant and Equipment | 21 | 4,761.3 |
| 245.3 | 245.7 | Heritage Assets | 22 | 246.1 |
| - | - | Investment Property | 21 | 10.8 |
| 43.6 | 49.3 | Intangible Assets | 23 | 28.4 |
| - | - | Assets Held for Sale | | - |
| 268.2 | 257.0 | Long Term Investments | 24 | 32.1 |
| 70.8 | 77.1 | Long Term Debtors | 25 | 77.6 |
| **5,478.2** | **5,428.2** | **Total Long Term Assets** | | **5,156.3** |
| | | | | |
| 103.0 | 83.0 | Short Term Investments | 26 | 266.2 |
| 14.8 | 11.8 | Assets Held for Sale | 27 | 68.8 |
| 1.3 | 1.0 | Inventories | | 1.0 |
| 243.9 | 228.4 | Short Term Debtors | 28 | 311.7 |
| 70.8 | 44.0 | Cash and Cash Equivalents | 29 | 37.7 |
| **433.8** | **368.2** | **Total Current Assets** | | **685.4** |
| | | | | |
| (72.7) | (24.6) | Cash and Cash Equivalents | 29 | (22.1) |
| (466.2) | (569.8) | Short Term Borrowing | 34 | (603.8) |
| (283.2) | (290.1) | Short Term Creditors | 30 | (342.7) |
| (145.4) | (191.5) | Provisions | 32 | (332.5) |
| **(967.5)** | **(1,076.0)** | **Total Current Liabilities** | | **(1,301.1)** |
| | | | | |
| - | - | Long Term Creditors | 31 | (13.6) |
| (555.7) | (482.3) | Provisions | 32 | (265.5) |
| (2,787.2) | (2,646.2) | Long Term Borrowing | 34 | (2,668.0) |
| (437.2) | (513.3) | Other Long Term Liabilities | 39 | (527.9) |
| (2,183.7) | (1,804.6) | Net liability on defined benefit pension scheme | 12 | (2,293.6) |
| **(5,963.8)** | **(5,446.4)** | **Total Long Term Liabilities** | | **(5,768.6)** |
| | | | | |
| **(1,019.3)** | **(726.0)** | **Net Assets** | | **(1,228.0)** |
| | | | | |
| 515.9 | 653.0 | Usable Reserves | 9 | 626.0 |
| (1,535.2) | (1,379.0) | Unusable Reserves | 10 | (1,854.0) |
| **(1,019.3)** | **(726.0)** | **Total Reserves** | | **(1,228.0)** |

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The detail for 2013/14 have been restated to reflect the impact of the changes in accounting for schools set out in Note 5, Prior Period Adjustments.

| 2013/14 (Restated) £m | | Note | 2014/15 £m |
|---|---|---|---|
| (358.5) | Net Surplus/(Deficit) on the provision of services | | (71.0) |
| 636.3 | Adjustments to net Surplus/Deficit on the provision of services for non cash movements | 38 | 358.7 |
| (138.0) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | 38 | (122.6) |
| **139.8** | **Net cash flows from Operating Activities** | **35** | **165.1** |
| (149.7) | Investing Activities | 36 | (260.5) |
| 31.2 | Financing Activities | 37 | 91.6 |
| **21.3** | **Net increase/(decrease) in cash and cash equivalents** | | **(3.8)** |
| (1.9) | Cash and cash equivalents at the beginning of the reporting period | | 19.4 |
| **19.4** | **Cash and cash equivalents at the end of the reporting period** | **29** | **15.6** |

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

### i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015. The Accounts and Audit (England) Regulations 2011, requires the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) and the Service Reporting Code of Practice 2014/15 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

### ii. Accruals of Income and Expenditure

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

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

The Council has adopted a general de minimis level for accruals of £5,000. Debtors and creditors below this level are not included in the accounting statements, with the exception of items relating to:

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

- Activity with bodies that will be consolidated within the entity or within the Group Accounts;
- Activity that in aggregate would be material to a specific service, for example, external residential care costs.

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

**iii. 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.

**iv. 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.

**v. Employee Benefits**

*Benefits Payable During Employment*

Short Term Benefits

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

Other Long Term Benefits

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

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

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

*Termination Benefits*

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

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

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

*Post-Employment Benefits*

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price,
    - unquoted securities – professional estimate,
    - unitised securities – current bid price,
    - property – market value.

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

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

  Re-measurements comprising:
    - re-measurement of 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 balance 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 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 also 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.

**vi. Revenue Expenditure Funded from Capital under Statute**

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

**vii. Charges to revenue for Non-Current Assets**

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 7, 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 HRA Balance to the Capital Adjustment Account.

### viii. Government Grants and Contributions

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

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

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

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

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

### ix. Overheads and Support Services

The costs of overheads and support services are charged to those activities that benefit from the supply or service in accordance with the costing principles of SeRCOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

### x. Property, Plant and Equipment

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

*Recognition*

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

*Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair 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 – fair value, determined as the price that would be received to sell an asset in an orderly transaction between market participants at the Balance Sheet date.

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

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

*Useful Life*

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

- Council Dwellings – separated into the key components
    - Land – indefinite life
    - Kitchens – 20 years
    - Bathrooms – 40 years
    - Doors/Windows/Rainwater, Soffits and Facias – 35 years
    - Central Heating/Boilers – 15 to 30 years
    - Roofs – 25 to 60 years
    - Remaining components (Host) – 30 to 60 years
- Buildings – up to 50 years
- Vehicles, Plant, Furniture and Equipment – 3 to 51 years
- Infrastructure – 10 to 40 years

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

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

*Depreciation*

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

Depreciation is calculated on the following bases:

- dwellings and other buildings and components therein – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation over their useful lives
- infrastructure – straight line allocation over their useful lives

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

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

*Disposals and Non-Current Assets Held for Sale*

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

Where assets are no longer used by a Directorate, these assets are offered to other Directorates for use. Those assets which are surplus are made available for sale and will be classified as Assets Held for Sale. The Council has no surplus assets that would fall within the classification as defined in the Code.

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2014/15, 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.

**xi. Heritage Assets**

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

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

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

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

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

**xii. Intangible Assets**

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

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

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

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

**xiii. Investment Properties**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms' length. Investment properties are not depreciated but are revalued annually based on market conditions at the year-end. Gains/losses on revaluation are posted to Financing Income and Expenditure in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

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

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

**xiv. Service Concession Arrangements**

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

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

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

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

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

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

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

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

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

**xv. Leases**

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

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

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

*The Council as Lessee*

<u>Finance Leases</u>

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

*The Council as Lessor*

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

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

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

**xvii. 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 land, buildings and other non-current assets on its balance sheet.

The Code includes transitional provisions where non-current assets are recognised for the first time as a result of a change in accounting policy arising from a revision to accounting for schools. Under the transitional rules, non-current assets recognised for the first time should be accounted for at their 1 April 2013 valuation at "deemed cost" with the credit entry recognised in the Capital Adjustment Account. The Code does not recognise the need for identification of any historic valuation movements prior to 1 April 2013.

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

**xviii. Financial Instruments**

Financial Liabilities

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

*Available-for-Sale Assets*

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

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

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

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

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

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

*Instruments Entered Into Before 1 April 2006*

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

### xix. Cash and Cash Equivalents

Cash is 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.

### xx. Inventories and Long Term Contracts

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

### 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 instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

The Council has received capitalisation directions to support an element of the provision made. However, statutory arrangements allow settlements to be financed from the General Fund and Housing Revenue Account in the year that the payments actually take place, not when the provision is established. The additional provision made above the capitalisation directions given is, therefore, balanced by an Equal Pay Back Pay Account created from amounts credited to the General Fund and HRA 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 appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance through the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

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

### xxiii. Council Tax and National Non-Domestic Rates

Billing authorities are required by statute to maintain a separate fund (the Collection Fund) for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The Fund's key features relevant to the accounting for Council Tax and NNDR 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 NNDR 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 2014/15.

Comprehensive Income and Expenditure Statement

The Council Tax and NNDR 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 NNDR 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 NNDR in respect of recovery action.

Balance Sheet

Since the collection of Council Tax and NNDR 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 NNDR collected during the year, and the amount included for precepts paid excludes amounts paid to the major preceptors. In addition that part of NNDR 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 (BID) Regulations 2004 a ballot of local businesses within specific areas of the City has resulted in the creation of distinct Business Improvement Districts. Business ratepayers in these areas pay a levy in addition to the National Non Domestic Rate to fund a range of specified additional services which are provided by specific companies set up for the purpose.

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

### xxv. 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.

### xxvi. Jointly Controlled Operations and Jointly Controlled Assets

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

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

### xxvii. Council Acting as Agent

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

### xxviii. Value Added Tax

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

### xxix. Foreign Currency Translation

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

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

**IMPACT OF THE ADOPTION OF NEW STANDARDS ON THE 2014/15 FINANCIAL STATEMENTS**

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

- IFRS 13, *Fair Value Measurement*
- IFRIC 21, *Levies*
- Annual Improvement to IFRS's 2011-2013 Cycle

IFRS 13, *Fair Value Measurement*

This standard sets out the requirement for the fair value measurement of those assets and liabilities that are covered by International Financial Reporting Standards that permit or require measurement at fair value. This will impact mainly on the valuation of surplus assets which have historically been valued at existing use value before being reclassified as surplus. In future surplus assets will be valued at fair value.

This standard is not expected to have a material impact on the Council's Statement of Accounts. Currently, the Council has no assets defined as surplus assets.

IFRIC 21, *Levies*

This standard provides clarification on the recognition point of levies imposed by government in the financial statements of the paying authority. The obligating event is specified as the activity which triggers the payment of the levy.

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

Annual Improvement to IFRS's 2011-2013 Cycle

The changes are minor and relate to matters of clarification and are not expected to have a material impact on the Council's Statement of Accounts.

**Note 3**
**Critical Judgements in Applying Accounting Policies**

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

Going Concern
The Council is continuing to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, including those arising from equal pay claims. The Council has developed its medium to long term financial strategy, detailed in the Council Business Plan 2015+, and is meeting these budget challenges by developing multi-year savings plans and through the generation of capital receipts. The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has general fund balances and can redesignate earmarked reserves to meet the shortfall or it can delay the timing of MRP contributions and equal pay settlements. On this basis, the Council considers that it can continue to meet its liabilities as they fall due and the financial statements have been prepared on a going concern basis.

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

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

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

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

Local authority maintained schools, as independent entities, have responsibility for the management of their own resources. However, as their transactions are consolidated into the Council's financial statements, the Council has reviewed their activity to ensure consistency of accounting treatment. The Council has identified activity incurred as revenue expenditure by local authority maintained schools, which under the Council's policies would be considered to be capital expenditure. The Council has, therefore, treated expenditure which it can reasonably identify as being capital in nature as capital expenditure financed from revenue, which is then depreciated over an average useful economic life. Where it is not clear whether expenditure incurred relates specifically to capital, it has been left in revenue expenditure. This review has been back dated and has resulted in a prior period adjustment as detailed in Note 5.

As the Council is required to report the transaction of local authority maintained schools within its entity financial statements, it has included details of employees of Voluntary Aided and Foundation Trust schools in Note 45, Officers' Remuneration although they are considered to be employed by the relevant governing body. This is a change to the approach adopted in previous years.

The table below shows the number and type of schools within Birmingham at 31 March 2015.

| Type of School | Primary | Secondary | Nursery | Special | Pupil Referral Unit | **Total** |
|---|---|---|---|---|---|---|
| Community | 146 | 15 | 27 | 21 | 1 | **210** |
| Voluntary Controlled | 7 | - | - | - | - | **7** |
| Voluntary Aided | 62 | 10 | - | - | - | **72** |
| Foundation Trust | 9 | 8 | - | 3 | - | **20** |
| Academy (formerly Council school) | 75 | 42 | - | 3 | - | **120** |
| Academy (not formerly Council school) | 1 | 7 | - | - | - | **8** |
| **Total** | **300** | **82** | **27** | **27** | **1** | **437** |

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.

National Exhibition Centre

On 16 January 2015, the Council announced that it had entered into a binding agreement for the disposal of The National Exhibition Centre Ltd (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The Council has considered the criteria within IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and has determined that the tests for inclusion of the assets within the balance sheet as Assets Held for Sale were met at the 2014/15 Balance Sheet Date. The Council has, therefore, included the NEC assets as Assets Held for Sale at the year end, which has entailed a transfer from Property, Plant and Equipment and from Long Term Investments on the Balance Sheet.

The disposal of the NEC was finalised on 1 May 2015.

Gateway/Grand Central Project

The Council is working in partnership in the development being undertaken at New Street Station, which includes the development of the Pallasades shopping centre.

The Council has considered the conditions within IFRS 11, *Joint Arrangements* and has determined, for this year, that it should account for the assets and liabilities of the Pallasades shopping centre within these financial statements and that it should not include the assets and liabilities from the station development. As the station development is jointly funded through Network Rail and Council resources, the Council has recognised a contingent liability in Note 33 to these accounts.

Specialist Assets

The Council includes the value of assets on the Balance Sheet in line with its accounting policy set out in section x. 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.

Highways PFI

The Council entered into a contract for the management and maintenance of highways on 7 June 2010. The Council has taken the view that the PFI capital expenditure replaces the current value of the infrastructure assets on the Council's Balance Sheet and has derecognised the existing assets in line with the recognition of new assets.

Leases

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

The Council acting as Agent

The Council acts as agent for a range of funding resources. In its role as agent, resources are not included in the Council's financial statements. Two of the largest schemes are identified below:

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

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

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

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

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

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

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

The items in the Council's Balance Sheet at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Heritage Asset Valuations (Museum and Art Gallery Collections, Archives) | In the absence of recent transactions in a number of assets held in the Museum and Art Gallery Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets. | If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.3m with a corresponding adjustment in the Revaluation Reserve. |
| Measure of financial instrument fair values | The Council has assessed the fair value of some of its financial investments by using the present value of future cashflows discounted at market rates. | Given the complex nature of the underlying assumptions and the uncertainty regarding future market rates, the fair value is the best estimate that can be made. A 1% change in long term interest rates would result in a £2.4m change in the fair value of the Council's financial investments. |
| Long term obligations under, for example, PFI schemes | For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates. | If inflation were to increase by 1% over the expected interest rate each year assumed within each contract this would result in an increase of £67.0m over the life of the contracts. |
| Equal Pay | The Council has included a provision of £561.6m for the settlement of claims for back pay arising from the Equal Pay initiative. The Council has based its estimate on the number of claims received and on historic information on settlement of similar claims and on the current negotiations with claimants' representatives. | An increase of 1% in the average level of settlement would have the effect of increasing the provision required by £5.4m. |
| NNDR Appeals | An estimate of the impact of NNDR appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims. | An increase of 1% in the average level of settlement would have the effect of £4.1m on the provision set aside. |

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Defined Benefit Pension Liability | The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2014/15 | 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 12 of these financial statements |
| Non-current Asset Valuations | Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following DCLG guidance, with a desk top review in the intervening years. | An increase of 1% in the average valuation of assets would have the effect of increasing the carrying value of non-current assets by £42.5m, with a corresponding increase in the level of unusable reserves. |

**Note 5**
**Prior Period Adjustments**

New accounting standards have been introduced in respect of consolidated financial statements. As a result the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on the consolidation of local authority maintained schools' income, expenditure, assets and liabilities within the Council's financial statements, rather than consolidating them into the Council's Group Accounts.

Guidance has also been issued through the publication of LAAP 101, *Accounting for Non-Current Assets Used by Local Authority Maintained Schools*. Following this guidance the Council has reviewed its basis of accounting for local authority maintained schools to ensure continued compliance with the Code. The Council has identified two factors which are considered material and require a prior period adjustment.

<u>Accounting for Schools' Assets</u>

Within schools' assets there are two elements identified:

- Current Assets
- Non-current Assets

Current Assets

In addition to the funding allocated through the Dedicated Schools Grant, schools also account for income and expenditure through school funds. These school funds may be generated from a number of different areas and are controlled by the governing body. The Council has identified that schools hold approximately £1.7m of funds.

Non-Current Assets

The Council has previously included the building assets of Voluntary Controlled (VC), Voluntary Aided (VA) and Foundation schools in its financial accounts. Following a review of the guidance set out in LAAP 101 and a review of the arrangements supporting the assets used by schools, the Council has determined that it should also include the value of land assets within its financial statements because of the nature of control over schools and the service potential that will be delivered from those school assets.

<u>Accounting for Capital Expenditure in Schools</u>

The Council has also reviewed transactions within school revenue accounts and identified activity that would, if accounted for within the Council's own accounts, be treated as capital expenditure and included as an asset on its balance sheet. In subsequent years, the Council will depreciate the asset over its useful economic life, which will impact on the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement through the statutory reversal of the depreciation charge. The Council has, therefore, adjusted its accounts to recognise this error.

<u>Accounting for Pension Contributions</u>

The Council is required to account for past service costs in respect of employer pension contributions in Non Distributed Costs in the CIES. In previous years, the Council accounted for this expenditure in service lines within the CIES. The 2013/14 CIES has been restated to correct this error.

Trading Accounts

Income and expenditure generated through trading operations related to the provision of services within the Council should be accounted for in the relevant service line of the CIES whilst external activity is accounted for in Note 15, Financing and Investment Income and Expenditure. The CIES has been restated for 2013/14 to recognise the reallocation of income and expenditure.

Details of the prior year adjustment are set out below.

**Movement in Reserves Statement**

The recognition of:

- school funds increases the opening balance of earmarked reserves by £1.7m with a corresponding increase in cash balances;
- land associated with VC, VA and Foundation Schools, increases the opening balance of non-current assets by £149.7m, balanced by an increase in unusable reserves;
- school capital expenditure increases the opening balance of non-current assets by £23.2m with a corresponding increase in unusable reserves.

| | General Fund Balance | Earmarked General Fund Reserves | Other Usable Reserves | **Total Usable Reserves** | Unusable Reserves | **Total Council Reserves** |
|---|---|---|---|---|---|---|
| | £m | £m | £m | **£m** | £m | **£m** |
| **Original Opening Balance at 31 March 2013** | **26.9** | **257.6** | **229.7** | **514.2** | **(1,708.1)** | **(1,193.9)** |
| Adjustment to Opening Balance | | | | | | |
| - **School Funds** | | **1.7** | | **1.7** | | **1.7** |
| - **Recognition of Land Assets** | | | | | **149.7** | **149.7** |
| - **Recognition of Capital Expenditure** | | | | | **23.2** | **23.2** |
| **Revised Opening Balance at 31 March 2013** | **26.9** | **259.3** | **229.7** | **515.9** | **(1,535.2)** | **(1,019.3)** |
| | | | | | | |
| **Original Transactions** | | | | | | |
| Original Surplus/(Deficit) on the provision of services | (395.2) | | 33.2 | **(362.0)** | | **(362.0)** |
| Original Other Comprehensive Income and Expenditure | | | | | 651.9 | **651.9** |
| **Original Total Comprehensive Income and Expenditure** | **(395.2)** | | **33.2** | **(362.0)** | **651.9** | **289.9** |
| Original Adjustments between accounting basis and funding basis under regulations (Note 7) | 543.1 | | (44.0) | **499.1** | (499.1) | |
| **Original Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **147.9** | | **(10.8)** | **137.1** | **152.8** | **289.9** |
| Original Transfers to/(from) Earmarked Reserves (Note 8) | (89.0) | 89.0 | | | | |
| **Original Increase/Decrease in 2013/14** | **58.9** | **89.0** | **(10.8)** | **137.1** | **152.8** | **289.9** |
| | | | | | | |
| **Adjustment Transactions** | | | | | | |
| Adjustment to Surplus/(Deficit) on the provision of services | (13.3) | | | (13.3) | | (13.3) |
| Adjustment to Other Comprehensive Income and Expenditure | | | | | | |
| **Adjustment to Total Comprehensive Income and Expenditure** | **(13.3)** | | | **(13.3)** | | **(13.3)** |
| Adjustment to Adjustments between accounting basis and funding basis under regulations (Note 7) | 9.9 | | | **9.9** | 3.4 | **13.3** |
| **Adjustment to Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **(3.4)** | | | **(3.4)** | **3.4** | **-** |
| Adjustment to Transfers to/(from) Earmarked Reserves (Note 8) | 3.4 | | | **3.4** | | **3.4** |
| **Adjustment to Increase/Decrease in 2013/14** | | | | | **3.4** | **3.4** |
| **Adjusted Balance at 31 March 2014** | **85.8** | **348.3** | **218.9** | **653.0** | **(1,379.0)** | **(726.0)** |

**Comprehensive Income and Expenditure Statement**

The capitalisation of expenditure results in an ongoing charge to service expenditure for depreciation which increases the net cost of services, whilst the pension and trading services adjustments reallocate activity between lines in the CIES. Details of the amendments are set out below. The impact of depreciation on the cost of services is reversed out as a statutory adjustment through the movement in reserves statement.

| | Original Net Expenditure 2013/14 | Accounting for School Assets | Accounting for Capital Expenditure | Pension Adjustment | Trading A/c Adjustment | Revised Net Expenditure 2013/14 |
|---|---|---|---|---|---|---|
| **Services** | £m | £m | £m | £m | £m | £m |
| Central Services to the Public | 3.7 | - | - | (0.2) | 0.1 | 3.6 |
| Cultural and Related Services | 136.2 | - | - | (0.9) | 0.5 | 135.8 |
| Environmental and Regulatory Services | 91.1 | - | - | (1.2) | (0.3) | 89.6 |
| Planning Services | 17.8 | - | - | (0.4) | (0.3) | 17.1 |
| Children’s and Education Services | 446.5 | - | (3.4) | (13.0) | (1.3) | 428.8 |
| Highways and Transport Services | 132.7 | - | - | (0.3) | - | 132.4 |
| Housing Revenue Account | (89.3) | - | - | - | - | (89.3) |
| Housing General Fund | 96.4 | - | - | (0.8) | (0.1) | 95.5 |
| Adult Social Care | 319.9 | - | - | (2.2) | 0.2 | 317.9 |
| Public Health | (8.3) | - | - | (0.1) | 0.1 | (8.3) |
| Corporate and Democratic Core | 41.2 | - | - | (0.9) | - | 40.3 |
| Non-Distributed Costs | (27.6) | - | - | 21.1 | - | (6.5) |
| Trading Operations | 6.7 | - | - | (1.1) | (5.6) | - |
| **Total Cost of Services** | **1,167.0** | **-** | **(3.4)** | **-** | **(6.7)** | **1,156.9** |
| | | | | | | |
| Other Operating Expenditure | 220.4 | - | - | | - | 220.4 |
| Financing and Investment Income and Expenditure | 224.8 | - | - | - | 6.7 | 231.5 |
| Taxation and Non-Specific Grant Income | (1,250.3) | - | - | - | - | (1,250.3) |
| **(Surplus)/Deficit on Provision of Services** | **361.9** | **-** | **(3.4)** | **-** | **-** | **358.5** |
| | | | | | | |
| (Surplus)/Deficit on revaluation of Property, Plant and Equipment assets | (285.5) | - | - | - | - | (285.5) |
| Impairment losses on non-current assets charged to the revaluation reserve | 91.8 | - | - | - | - | 91.8 |
| Remeasurement of the net defined benefit liability | (457.8) | - | - | - | - | (457.8) |
| | **(651.5)** | **-** | **-** | **-** | **-** | **(651.5)** |
| **Items that may be reclassified to the (Surplus)/Deficit on Provision of Services** | | | | | | |
| (Surplus)/Deficit on revaluation of available for sale financial assets | (0.4) | - | - | - | - | (0.4) |
| | **(0.4)** | **-** | **-** | **-** | **-** | **(0.4)** |
| **Other Comprehensive (Income)/Expenditure** | **(651.9)** | **-** | **-** | **-** | **-** | **(651.9)** |
| **Total Comprehensive (Income)/Expenditure** | **(290.0)** | **-** | **(3.4)** | **-** | **-** | **(293.4)** |

## Balance Sheet

The impact of bringing on additional assets changes the values of Property, Plant and Equipment and Cash and Cash Equivalents for the balance sheet as at 1 April 2013 and 31 March 2014 with corresponding impacts on the levels of Usable and Unusable Reserves as detailed below.

Balance Sheet as at 1 April 2013

| | Original Balance Sheet at 1 April 2013 | Accounting for School Assets | Accounting for Capital Expenditure | Revised Balance Sheet at 1 April 2013 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Property, Plant and Equipment | 4,677.4 | 149.7 | 23.2 | 4,850.3 |
| Heritage Assets | 245.3 | | | 245.3 |
| Intangible Assets | 43.6 | | | 43.6 |
| Long Term Investments | 268.2 | | | 268.2 |
| Long Term Debtors | 70.8 | | | 70.8 |
| **Total Long Term Assets** | **5,305.3** | **149.7** | **23.2** | **5,478.2** |
| | | | | |
| Short Term Investments | 103.0 | | | 103.0 |
| Assets Held for Sale | 14.8 | | | 14.8 |
| Inventories | 1.3 | | | 1.3 |
| Short Term Debtors | 243.9 | | | 243.9 |
| Cash and Cash Equivalents | 69.1 | 1.7 | | 70.8 |
| **Total Current Assets** | **432.1** | **1.7** | | **433.8** |
| | | | | |
| Cash and Cash Equivalents | (72.7) | | | (72.7) |
| Short Term Borrowing | (466.2) | | | (466.2) |
| Short Term Creditors | (283.2) | | | (283.2) |
| Provisions | (145.4) | | | (145.4) |
| **Total Current Liabilities** | **(967.5)** | | | **(967.5)** |
| | | | | |
| Provisions | (555.7) | | | (555.7) |
| Long Term Borrowing | (2,787.2) | | | (2,787.2) |
| Other Long Term Liabilities | (437.2) | | | (437.2) |
| Net liability on defined benefit pension scheme | (2,183.7) | | | (2,183.7) |
| **Total Long Term Liabilities** | **(5,963.8)** | | | **(5,963.8)** |
| | | | | |
| **Net Assets/(Liabilities)** | **(1,193.9)** | **151.4** | **23.2** | **(1,019.3)** |
| | | | | |
| Usable Reserves | 514.2 | 1.7 | | 515.9 |
| Unusable Reserves | (1,708.1) | 149.7 | 23.2 | (1,535.2) |
| **Total Reserves** | **(1,193.9)** | **151.4** | **23.2** | **(1,019.3)** |

Balance Sheet as at 31 March 2014

| | Original Balance Sheet at 31 March 2014 | Accounting for School Assets | Accounting for Capital Expenditure | Revised Balance Sheet at 31 March 2014 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Property, Plant and Equipment | 4,622.8 | 149.7 | 26.6 | 4,799.1 |
| Heritage Assets | 245.7 | | | 245.7 |
| Intangible Assets | 49.3 | | | 49.3 |
| Long Term Investments | 257.0 | | | 257.0 |
| Long Term Debtors | 77.1 | | | 77.1 |
| **Total Long Term Assets** | **5,251.9** | **149.7** | **26.6** | **5,428.2** |
| | | | | |
| Short Term Investments | 83.0 | | | 83.0 |
| Assets Held for Sale | 11.8 | | | 11.8 |
| Inventories | 1.0 | | | 1.0 |
| Short Term Debtors | 228.4 | | | 228.4 |
| Cash and Cash Equivalents | 42.3 | 1.7 | | 44.0 |
| **Total Current Assets** | **366.5** | **1.7** | | **368.2** |
| | | | | |
| Cash and Cash Equivalents | (24.6) | | | (24.6) |
| Short Term Borrowing | (569.8) | | | (569.8) |
| Short Term Creditors | (290.1) | | | (290.1) |
| Provisions | (191.5) | | | (191.5) |
| **Total Current Liabilities** | **(1,076.0)** | | | **(1,076.0)** |
| | | | | |
| Provisions | (482.3) | | | (482.3) |
| Long Term Borrowing | (2,646.2) | | | (2,646.2) |
| Other Long Term Liabilities | (513.3) | | | (513.3) |
| Net liability on defined benefit pension scheme | (1,804.6) | | | (1,804.6) |
| **Total Long Term Liabilities** | **(5,446.4)** | | | **(5,446.4)** |
| | | | | |
| **Net Assets/(Liabilities)** | **(904.0)** | **151.4** | **26.6** | **(726.0)** |
| | | | | |
| Usable Reserves | 651.3 | 1.7 | | 653.0 |
| Unusable Reserves | (1,555.3) | 149.7 | 26.6 | (1,379.0) |
| **Total Reserves** | **(904.0)** | **151.4** | **26.6** | **(726.0)** |

**Cash Flow Statement**

The recognition of land assets has no impact on the cash flow statement.

The recognition of school funds adjusts the opening cash position.

The recognition of capital expenditure impacts on the investing and financing activities whilst the consequential impact in respect of depreciation will impact on the net surplus/(deficit) with a corresponding movement in the non-cash movements.

| | Original Cash Flow Position 2013/14 | Accounting for School Assets | Accounting for Capital Expenditure | Revised Cash Flow Position 2013/14 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Net Surplus/(Deficit) on the provision of services | (361.9) | | 3.4 | (358.5) |
| Adjustments to net Surplus/Deficit on the provision of services for non-cash movements | 626.4 | | 9.9 | 636.3 |
| Adjustment for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | (138.0) | | | (138.0) |
| **Net cash flows from Operating Activities** | **126.5** | | **13.3** | **139.8** |
| | | | | |
| Investing Activities | (136.4) | | (13.3) | (149.7) |
| Financing Activities | 31.2 | | | 31.2 |
| **Net increase/(decrease) in cash and cash equivalents** | **21.3** | | | **21.3** |
| | | | | |
| Cash and cash equivalents at the beginning of the reporting period | (3.6) | 1.7 | | (1.9) |
| **Cash and cash equivalents at the end of the reporting period** | **17.7** | **1.7** | | **19.4** |

## Note 6
## Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance on 30 June 2015. 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 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

*NEC Group*

On 16 January 2015, the City Council announced it had entered into a binding agreement to sell NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The following material pre-sale completion events and transactions took place:

- Liabilities due from NEC Group to the City Council as at 30 April 2015 under the terms of the management agreement of £11.9m were capitalised in return for new equity issued in NEC Ltd (NECL);
- £192.4m of existing debenture stock issued by NEC Finance Limited (formerly known as NEC Finance Plc) that was held by the City Council was transferred to NEC Ltd (NECL) for consideration initially left outstanding;
- NECL issued the City Council with new ordinary share capital and premium of £192.4m. This sum was offset against consideration outstanding from the above NEC Finance stock transfer;
- Responsibility for the on-going funding of the NECL defined pension schemes transferred to PETPS (Birmingham) Limited, a wholly owned subsidiary of the City Council, which replaced NECL as principal employer of the schemes.

The sale completed on 1st May 2015 and the City Council disposed of leasehold property interests amounting to c£240m as follows:

- 125 year leasehold interest in the land on which the Resorts World Birmingham development is situated;
- 125 year core leasehold interest in the NEC site including exhibition halls and Genting Arena;
- 25 year leasehold interests in the International Convention Centre and Barclaycard Arena sites in the centre of Birmingham.

*Asset Disposals and use of Capital Receipts*

The Secretary of State for Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with implementing the Equal Pay Act 1970. In light of the regulations, the Council is expecting to use new capital receipts to meet Equal Pay costs unless those receipts have already been identified for use within the capital programme budget.

The Council is currently exploring strategic options for its property portfolio including asset disposals that could generate capital receipts whilst protecting the long term interests of the Council. The Council has valued some of its assets as specialised assets because of their specialist nature and because the assets are rarely sold. The assets have been valued on this basis as a reliable market valuation of the assets is not available. The amount received for these assets depends on a number of underlying variables including current market conditions, and the package of assets sold. The Council may not receive the current balance sheet estimate of the value of these assets if they are sold. In accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15*, the Council has performed an impairment review, and concluded that no impairment is required as the value in use is assumed to equal the cost of replacing the service potential provided by the assets as there has been no reduction in service potential. The financial statements, therefore, have not been adjusted.

*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 2015 and 30 June 2015, 6 schools, with assets having a net book value of £28.6m, have transferred to Academy School Trust status. A further 12 schools, with assets having a net book value of £101.6m have announced their proposals to transfer to Academy School Trust status.

*Transfer of Council Services*

Following Cabinet approval for the outsourcing of services, Civic Catering, Building Cleaning and Birmingham City Laboratories were transferred to Acivico (Design, Construction and Facilities Management) Ltd on 1st April 2015. Further information on Acivico Limited is set out in G23 in the Group Accounts section of these financial statements.

*Future Resource Allocations*

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council's Business Plan 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 2015/16.

*Care Act*

The Care Act 2014, which received Royal Assent on 14 May 2014, is a new law about the care and support that adults receive. The act sets out key responsibilities for local authorities, including:

- Promoting individual well being
- Preventing the care and support needs of people from becoming more serious
- Promoting integration of care and support with health services
- Providing information and advice
- Promoting diversity and quality in provision of services
- Co-operating with relevant partners

The majority of the Act comes into force from April 2015, with the exception of the cap on care costs, independent personal budgets and care accounts which come into force in 2016.

*Combined Authority*

In the Queen's Speech on 27 May 2015, the Queen announced that legislation would be introduced to provide for the devolution of powers to cities. Following the outcome of the governance review in July, Councils within the West Midlands are coming together with the aim of forming the West Midlands Combined Authority (WMCA). A draft scheme was submitted to the Department for Communities and Local Government on 4 September 2015, covering the geographical area of three Local Enterprise Partnerships of the Black Country, Coventry and Warwickshire and Greater Birmingham and Solihull. If agreed to, the WMCA will be established by 1 April 2016 and will be the vehicle for delivering the outcomes of any devolution deal.

*Social Housing Rent*

The Chancellor's Budget Statement of 8 July 2015 included a number of announcements relating to social housing, the most significant of which is that annual rent changes for social housing for the next 4 years from April 2016 should change from being calculated as an annual increase of CPI + 1% to being a reduction of 1% per annum.

This change in national policy represents a substantial reduction in resources within the statutorily ring-fenced Housing Revenue Account on an ongoing basis, with initial estimates for the Council being that it will result in a reduction of rent income of £6m in 2016/17, increasing to an ongoing reduction of £40m from 2019/20. The approach to be taken to managing this reduction in available resources, whilst ensuring that the requirement to maintain a balanced HRA budget year on year is met, has not yet been confirmed and will form part of the Council Plan and Budget for 2016 and future years, which will be considered by the Council in February/March 2016.

*Boundary Commission*

The Local Government Boundary Commission for England (the Commission) decided to conduct an electoral review following the publication of Sir Bob Kerslake's (now Lord Kerslake) report on the governance and organisational capabilities of the Council. The Commission received evidence supporting different sizes for the Council and is minded to recommend that there should be 100 councillors elected from 2018.

*Other Events*

There were no other significant events after the reporting period.

**Note 7**
**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 funding Housing Revenue Account (HRA) services.

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met 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.

| 2014/15 | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £m | £m | £m | £m | £m | £m |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited/(credited) to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Depreciation charges for Property, Plant and Equipment | 105.5 | 39.3 | - | - | - | (144.8) |
| Amortisation of intangible assets | 25.7 | - | - | - | - | (25.7) |
| Revaluation gains on Property, Plant and Equipment and intangible assets | - | - | - | - | - | - |
| Revaluation losses and impairments on Property, Plant and Equipment and intangible assets | 46.7 | - | - | - | - | (46.7) |
| Movements in the fair value of Investment Properties | - | - | - | - | - | - |
| Capital grants and contributions applied | (40.8) | (4.7) | - | - | - | 45.5 |
| Impairment in Capital contributions | 21.7 | - | - | - | - | (21.7) |
| Movement in the Donated Assets Account | - | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | 53.2 | - | - | - | - | (53.2) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 118.3 | 22.1 | - | - | - | (140.4) |
| Insertion of items not debited/(credited) to the Comprehensive Income and Expenditure Statement: | - | - | - | - | - | |
| Provision for the financing of capital investment | (109.9) | (11.7) | - | - | - | 121.6 |
| Capital expenditure charged against the General Fund and HRA balances | (14.1) | (29.4) | - | - | - | 43.5 |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Adjustments to Opening Balance | 9.6 | | | | (9.6) | - |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (43.1) | (0.4) | - | - | 43.5 | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | (72.1) | 72.1 |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (21.8) | (36.1) | 57.9 | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | (17.7) | - | - | 17.7 |
| Application of capital receipts to repay debt | - | - | (7.7) | - | - | 7.7 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 2.7 | - | (2.7) | - | - | - |
| Contribution from the Capital Receipts Reserve towards the costs of Equal Pay | 37.6 | - | (37.6) | - | - | - |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool. | 5.7 | - | (5.7) | - | - | - |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | 2.1 | - | - | (2.1) |

| 2014/15 | General Fund Balance (Usable Reserves) | Housing Revenue Account (Usable Reserves) | Capital Receipts Reserve (Usable Reserves) | Major Repairs Reserve (Usable Reserves) | Capital Grants Unapplied (Usable Reserves) | Movement in Unusable Reserves |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):** | | | | | | |
| Transfer of minimum lease payments charged to the Comprehensive Income and Expenditure Statement | 0.4 | - | - | - | - | (0.4) |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (12.2) | - | - | - | - | 12.2 |
| **Adjustment involving the Major Repairs Reserve** | | | | | | |
| Reversal of Notional Major Repairs Allowance credited to the HRA | - | (39.3) | - | 39.3 | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | (68.2) | - | 68.2 |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs (mainly relating to NEC debt) charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 11.9 | - | - | - | - | (11.9) |
| **Adjustments involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement (see Note 12) | 162.0 | 7.5 | - | - | - | (169.5) |
| Employer's pensions contributions and direct payments to retirees payable in the year | (98.9) | (4.7) | - | - | - | 103.6 |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which Council Tax and Non-Domestic Rating income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non-Domestic Rating income calculated for the year in accordance with statutory requirements | (6.0) | - | - | - | - | 6.0 |
| **Adjustment involving the Equal Pay Back Pay Adjustment Account:** | | | | | | |
| 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 | (67.5) | (7.9) | - | - | - | 75.4 |
| **Adjustment involving the Accumulated Absences Account** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 0.9 | - | - | - | - | (0.9) |
| **Total Adjustments** | **187.6** | **(65.3)** | **(11.4)** | **(28.9)** | **(38.2)** | **(43.8)** |

| 2013/14 (Restated) | Usable Reserves: General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited/(credited) to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Depreciation charges for Property, Plant and Equipment | 134.5 | 38.9 | - | - | - | (173.4) |
| Amortisation of intangible assets | 20.6 | - | - | - | - | (20.6) |
| Revaluation gains on Property, Plant and Equipment and intangible assets | - | - | - | - | - | - |
| Revaluation losses and impairments on Property, Plant and Equipment and intangible assets | 175.9 | - | - | - | - | (175.9) |
| Movements in the fair value of Investment Properties | - | - | - | - | - | - |
| Capital grants and contributions applied | (31.9) | (7.0) | - | - | - | 38.9 |
| Impairment in Capital contributions | 0.1 | - | - | - | - | (0.1) |
| Movement in the Donated Assets Account | - | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | 50.4 | - | - | - | - | (50.4) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 173.3 | 27.4 | - | - | - | (200.7) |
| Insertion of items not debited/(credited) to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Provision for the financing of capital investment | (89.5) | - | - | - | - | 89.5 |
| Capital expenditure charged against the General Fund and HRA balances | (13.3) | (17.1) | - | - | - | 30.4 |
| **Adjustments primarily involving the Capital Grants Unapplied Account:** | | | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (57.6) | - | - | - | 57.6 | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | (44.1) | 44.1 |
| Capital Grants Repaid | 0.1 | - | - | - | - | (0.1) |
| **Adjustments primarily involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (7.8) | (36.2) | 44.0 | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | (15.8) | - | - | 15.8 |
| Application of capital receipts to repay debt | - | - | (7.3) | - | - | 7.3 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals | 0.7 | - | (0.7) | - | - | - |
| Contribution from the Capital Receipts Reserve towards the costs of Equal Pay | 34.2 | - | (34.2) | - | - | - |
| Repayment of advances made | | | 0.3 | | | (0.3) |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool. | 5.2 | - | (5.2) | - | - | - |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | - | - | - | - | - | - |

| 2013/14 (Restated) | Usable Reserves General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):** | | | | | | |
| Transfer of minimum lease payments charged to the Comprehensive Income and Expenditure Statement | (8.1) | - | - | - | - | 8.1 |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0.4 | - | - | - | - | (0.4) |
| **Adjustment involving the Major Repairs Reserve** | | | | | | |
| Reversal of Notional Major Repairs Allowance credited to the HRA | - | (38.9) | - | 38.9 | - | - |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | - | (46.3) | - | 46.3 |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs (mainly relating to NEC debt) charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 12.1 | - | - | - | - | (12.1) |
| **Adjustments involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited/credited to the Comprehensive Income and Expenditure Statement (see Note 12) | 153.8 | 8.1 | - | - | - | (161.9) |
| Employer's pensions contributions and direct payments to retirees payable in the year | (79.2) | (4.1) | - | - | - | 83.3 |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which Council Tax and Non-Domestic Rating income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and Non-Domestic Rating income calculated for the year in accordance with statutory requirements | 13.8 | - | - | - | - | (13.8) |
| **Adjustment involving the Equal Pay Back Pay Adjustment Account:** | | | | | | |
| 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 | 57.9 | (2.3) | - | - | - | (55.6) |
| **Adjustment involving the Accumulated Absences Account** | | | | | | |
| 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) | - | - | - | - | 5.9 |
| **Total Adjustments** | **539.7** | **(31.2)** | **(18.9)** | **(7.4)** | **13.5** | **(495.7)** |

## Note 8
## Transfers To/(From) Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15. The balance at 31 March 2013 for school reserves has been restated to reflect the funds held by schools as detailed in Note 5.

| | **Balance at 1 April 2013** | Transfers Out 2013/14 | Transfers In 2013/14 | **Balance at 31 March 2014** | Transfers Out 2014/15 | Transfers In 2014/15 | **Balance at 31 March 2015** |
|---|---|---|---|---|---|---|---|
| | **(Restated) £m** | £m | £m | **£m** | £m | £m | **£m** |
| Earmarked Reserves | **82.7** | (52.2) | 150.7 | **181.2** | (120.7) | 76.3 | **136.8** |
| Grant Related Reserves | **97.0** | (56.5) | 55.6 | **96.1** | (41.5) | 90.1 | **144.7** |
| Schools Reserves | **79.6** | (10.3) | 1.7 | **71.0** | (13.1) | 8.1 | **66.0** |
| **General Fund Balances** | **259.3** | **(119.0)** | **208.0** | **348.3** | **(175.3)** | **174.5** | **347.5** |

Further details of the usable balances available to the Council, including earmarked reserves, are shown in Note 9 of these financial statements.

## Note 9
## Usable Reserves

Details of the major reserves held by the Council are detailed below. The balance at 31 March 2014 reflects the restatement for school reserves as detailed in Note 5. Further information on the movements in reserves is shown in the Movement in Reserves Statement and Note 7.

| **Usable Reserves** | **Balance at 31 March 2014** | Transfers out 2014/15 | Transfers In 2014/15 | **Balance at 31 March 2015** |
|---|---|---|---|---|
| | **(Restated) £m** | £m | £m | **£m** |
| Insurance Fund | **15.9** | (3.6) | - | **12.3** |
| Highways PFI Earmarked Reserve | **8.1** | - | - | **8.1** |
| Sums set aside to finance Capital Expenditure | **75.9** | (40.2) | 15.4 | **51.1** |
| Treasury Management Reserve | **8.3** | (1.3) | - | **7.0** |
| Adult Education Reserve | **0.7** | (0.3) | - | **0.4** |
| Supporting People | **1.6** | (0.3) | 0.7 | **2.0** |
| Support to Future Years Savings Plan | **3.9** | (1.4) | 0.2 | **2.7** |
| Child Protection Reserve | **9.3** | (9.3) | - | **-** |
| Children's Social Care Growth | **3.0** | (3.0) | - | **-** |
| Housing Benefit Subsidy Reserve | **7.4** | (3.0) | 2.3 | **6.7** |
| Local Welfare Reserve | **3.5** | - | 3.1 | **6.6** |
| Business Plan 2014+ | **8.3** | (8.3) | - | **-** |
| Contingency Reserve | **7.6** | (6.8) | 7.7 | **8.5** |
| Education Capitalisation Reserve | **-** | - | 6.0 | **6.0** |
| Other Earmarked Reserves | **27.7** | (43.2) | 40.9 | **25.4** |
| **Total Earmarked Reserves** | **181.2** | **(120.7)** | **76.3** | **136.8** |

| | | | | |
|---|---|---|---|---|
| Section 256 Grant from the NHS | **19.8** | (10.5) | 8.7 | **18.0** |
| Public Health | **6.9** | (2.0) | 12.2 | **17.1** |
| Troubled Families Grant | **7.0** | (6.0) | 2.5 | **3.5** |
| Highways PFI Grant | **58.9** | (11.5) | 10.2 | **57.6** |
| Weekly Collection Support Scheme | **0.5** | (0.5) | 9.1 | **9.1** |
| Non-Schools' DSG | **3.3** | (3.3) | 12.6 | **12.6** |
| Other Grant Reserves | **(0.3)** | (7.7) | 34.8 | **26.8** |
| **Total Grant Reserves** | **96.1** | **(41.5)** | **90.1** | **144.7** |
| | | | | |
| **Schools' Balances** | **71.1** | (13.1) | 8.0 | **66.0** |
| **General Fund Balances** | **85.8** | (6.2) | 58.2 | **137.8** |
| **Housing Revenue Account** | **4.4** | - | 0.1 | **4.5** |
| **HRA Major Repairs Reserve** | **44.6** | (68.2) | 39.3 | **15.8** |
| **Capital Receipts Reserve** | **27.5** | (71.5) | 60.3 | **16.2** |
| **Capital Grants Unapplied** | **142.5** | (81.7) | 43.4 | **104.2** |
| | | | | |
| **Total Usable Reserves** | **653.2** | **(402.9)** | **375.7** | **626.0** |

Details of the major usable reserves are set out below.

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

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

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

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

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

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

Support to Future Years' Savings Plan –has been set aside to fund the delivery of savings targets in future years within the People Directorate.

Children's Social Care Growth – has been earmarked as part of the growth in funding in Children's Social Care.

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

Local Welfare Reserve – has been earmarked for the continuation of the scheme into 2015/16 when Central Government funding ceases.

Contingency Reserve – the net underspend identified on corporate accounts has been set aside for future year contingencies

Education Capitalisation Reserve – has been earmarked to support the revised methodology on financial management in schools.

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

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

Schools' Balances - are the net cumulative balances held by the local authority maintained schools which, under national school funding regulations, the schools are entitled to retain for unexpected commitments and/or for planned school curriculum/infrastructure improvements and investment. This balance has been restated as at 1 April 2013 to reflect the inclusion of school funds as detailed in Note 5, Prior Period Adjustments.

General Fund Balances – reflect the accumulated surpluses of income over expenditure from previous years and any resources set aside as general contingency against adverse future events. General Fund Balances have increased by £52.0m to £137.8m, which includes £101.3m resulting from the revision of the Council's policy for Minimum Revenue Provision. In the Council's future decisions regarding the utilisation of these balances, the level previously assumed in its Business Plan 2015+ remains its planned minimum.

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

HRA Major Repairs Reserve – the Council is required by the Accounts and Audit (England) Regulations 2011 to maintain the Major Repairs Reserve. The reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes.

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

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

**Note 10**
**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. The statement has been restated for 2013/14 to reflect the adjustments in respect of schools as detailed in Note 5, Prior Period Adjustments.

| 31 March 2014 (Restated) £m | | 31 March 2015 £m |
|---|---|---|
| 797.8 | Revaluation Reserve | 743.8 |
| 0.4 | Available for Sale Financial Instruments Reserve | 0.8 |
| 295.4 | Capital Adjustment Account | 271.3 |
| (31.2) | Financial Instruments Adjustment Account | (29.6) |
| (1,804.5) | Pensions Reserve | (2,293.5) |
| 40.4 | Deferred Capital Receipts Reserve | 50.1 |
| (19.8) | Collection Fund Adjustment Account | (13.8) |
| (636.7) | Equal Pay Back Pay Account | (561.3) |
| (20.8) | Accumulated Absences Account | (21.6) |
| **(1,379.0)** | **Total Unusable Reserves** | **(1,854.0)** |

Revaluation Reserve

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

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

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

| 2013/14 £m | 2013/14 £m | | 2014/15 £m | 2014/15 £m |
|---|---|---|---|---|
| | **645.7** | **Balance at 1 April** | | **797.8** |
| | | Adjustment to Opening Balance | | |
| | **645.7** | **Restated Balance at 1 April** | | **797.8** |
| 316.8 | | Upward revaluation of assets | 217.7 | |
| (31.3) | | Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services | (101.6) | |
| (91.8) | | Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of services | (124.2) | |
| | 193.7 | Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services | | (8.1) |
| (10.5) | | Difference between fair value depreciation and historical cost depreciation | (9.4) | |
| (31.0) | | Accumulated gains on assets sold or scrapped | (25.7) | |
| (0.1) | | Adjustment for Transfer of land to Investment Property | (10.8) | |
| | (41.6) | Amount written off to the Capital Adjustment Account | | (45.9) |
| | **797.8** | **Balance at 31 March** | | **743.8** |

Capital Adjustment Account

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

The Account contains accumulated gains recognised on Donated Assets that have yet to be consumed by the Council.

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

The opening balance has been restated at 1 April 2013 to reflect the adjustment for land assets of Voluntary Aided, Voluntary Controlled and Foundation schools and for that activity that had been accounted for as revenue expenditure by local authority maintained school assets, which can reasonably be identified as complying with the Council's accounting policy for the recognition of capital expenditure.

| 2013/14 | | | 2014/15 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **443.0** | **Balance at 1 April** | | **295.4** |
| | 172.8 | Adjustment to Opening Balance | | - |
| | **615.8** | **Restated Opening Balance at 1 April** | | **295.4** |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES): | | |
| (168.4) | | Charges for depreciation and impairment of non current assets | (10.7) | |
| (180.9) | | Revaluation losses on Property, Plant and Equipment | (180.8) | |
| (20.6) | | Amortisation and impairment of intangible assets | (25.7) | |
| (0.2) | | Impairment of Capital Debtors/Grants | (21.7) | |
| (50.4) | | Revenue expenditure funded from capital under statute | (53.2) | |
| (200.7) | | Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | (140.4) | |
| | (621.2) | | | (432.5) |
| | 41.6 | Adjusting amounts written out of the Revaluation Reserve | | 45.9 |
| | (579.6) | Net written out amount of the cost of non-current assets consumed in the year | | (386.6) |
| | | Capital financing applied in the year: | | |
| 15.8 | | Use of the Capital Receipts Reserve to finance new capital expenditure | 17.7 | |
| 46.3 | | Use of the Major Repairs Reserve to finance new capital expenditure | 68.2 | |
| 38.9 | | Capital grants and contributions credited to the CIES that have been applied to capital financing | 45.5 | |
| 44.1 | | Application of grants to capital financing from the Capital Grants Unapplied Account | 72.1 | |
| 7.3 | | Application of capital receipts to repay debt | 7.7 | |
| 89.5 | | Provision for the financing of capital investment charged against the General Fund and HRA balances | 121.6 | |
| 30.4 | | Capital expenditure charged against the General Fund and HRA balances | 43.5 | |
| | 272.3 | | | 376.3 |
| | (12.8) | Amortisation of Investments debited to the CIES | | (13.5) |
| | (0.3) | Repayment of long term debtors | | (0.3) |
| | **295.4** | **Balance at 31 March** | | **271.3** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses this account to manage premia paid and discounts received on the early redemption of loans and the recognised losses on loans advanced at less than a commercial interest rate. These values are debited or credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund

Balance to the Account in the Movement in Reserves Statement. Over time, these values are posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax. For premia and discounts, this period is the unexpired term that was outstanding on the loans when they were redeemed.

| 2013/14 | | | 2014/15 | |
|---|---|---|---|---|
| £m | £m | | £m | £m |
| | **(31.9)** | **Balance at 1 April** | | **(31.2)** |
| - | | Premia incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - | |
| 0.7 | | Proportion of premia incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 1.6 | |
| | 0.7 | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | 1.6 |
| | **(31.2)** | **Balance at 31 March** | | **(29.6)** |

Pensions Reserve

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

The net increase in the pension liability in 2014/15 is due to the reduction in the rate for discounting scheme liabilities, which is based on gilt yields, resulting in an increase in the present value of liabilities. There has been a partial offset from the increase in pension scheme assets.

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| **(2,183.7)** | **Balance at 1 April** | **(1,804.5)** |
| 457.8 | Remeasurement of the net defined benefit liability | (423.1) |
| (161.9) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (169.5) |
| 83.3 | Employer's pensions contributions and direct payments to retirees payable in the year | 103.6 |
| **(1,804.5)** | **Balance at 31 March** | **(2,293.5)** |

## Deferred Capital Receipts

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

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **32.7** | **Balance at 1 April** | **40.4** |
| 8.1 | Transfer of deferred sale proceeds credited to the General Fund under capital finance regulations | (0.4) |
| (0.4) | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 12.2 |
| - | Transfer to the Capital Receipts Reserve upon receipt of cash | (2.1) |
| **40.4** | **Balance at 31 March** | **50.1** |

## Collection Fund Adjustment Account

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

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **(6.0)** | **Balance at 1 April** | **(19.8)** |
| (13.8) | Amount by which Council Tax/NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax/NNDR income calculated for the year in accordance with statutory requirements | 6.0 |
| **(19.8)** | **Balance at 31 March** | **(13.8)** |

## Available for Sale Financial Instruments Reserve

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

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **-** | **Balance at 1 April** | **0.4** |
| 0.4 | Upward revaluation of investments | 0.6 |
| - | Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services | (0.2) |
| **0.4** | | **0.8** |
| - | Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | - |
| **0.4** | **Balance at 31 March** | **0.8** |

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.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **(581.1)** | **Balance at 1 April** | **(636.7)** |
| (55.6) | Increase in provision for back pay in relation to Equal Pay cases | (7.9) |
| - | Cash settlements paid in the year | 83.3 |
| (55.6) | Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements | 75.4 |
| **(636.7)** | **Balance at 31 March** | **(561.3)** |

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.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **(26.7)** | **Balance at 1 April** | **(20.8)** |
| 5.9 | Settlement or cancellation of accrual made at the end of the preceding year | (0.9) |
| - | Amounts accrued at the end of the current year | 0.1 |
| 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 | (0.8) |
| **(20.8)** | **Balance at 31 March** | **(21.6)** |

**Note 11**
**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 2014/15, the Council paid £36.9m (2013/14: £39.5m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 14.1% (2013/14: 14.1%) of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2015/16 financial year are estimated to be £40.5m (employer contributions will increase from 14.1% to 16.48% from September 2015).

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 12.

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

NHS Pension Scheme

Staff who joined the Council on the transfer of Public Health responsibilities from the National Health Service on 1 April 2013 to the Council were members of the NHS Pensions 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 2014/15, the Council paid £0.2m (2013/14: £0.2m) to the NHS Pensions Scheme in respect of employees' retirement benefits, representing 14.0% (2013/14: 14.0%) of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2015/16 financial year are estimated to be £0.2m on the basis of an employer contribution rate of 14.3%.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the NHS pension scheme. These costs are accounted for on a defined benefit basis and detailed in Note 12.

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

**Note 12**
**Defined Benefit Pension Schemes**

<u>Participation in Pension Schemes</u>

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 contribution rate of 21.3% was set for the Council for 2014/15 (2013/14: 16.2%), which included an element to fund the pension deficit in respect of past service costs.

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

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

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

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in 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 | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £m | £m | £m | £m |
| *Comprehensive Income and Expenditure Statement* | | | | |
| Cost of Services: | | | | |
| current service cost | 106.0 | 89.1 | | |
| past service costs | 0.2 | 0.1 | | |
| effect of curtailments | 7.2 | 11.8 | | |
| effect of settlements | (41.3) | (7.7) | | |
| administration expenses | 1.3 | 1.3 | | |
| Financing and investment income and expenditure: | | | | |
| Net interest expense | 85.9 | 72.1 | 2.6 | 2.8 |
| **Total post employment benefit charged to the (Surplus)/Deficit on the provision of services** | **159.4** | **166.7** | **2.6** | **2.8** |
| **Movement in Reserves Statement** | | | | |
| Reversal of net charges made to the Surplus/Deficit for the provision of services for post employment benefits in accordance with the Code | (82.0) | (69.2) | 3.3 | 3.3 |
| ***Net charge against the General Fund Balance for pensions in the year comprising:*** | | | | |
| **employer's contributions payable to scheme** | 77.4 | 97.5 | | |
| **retirement benefits payable to retirees** | | | **5.9** | **6.1** |

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £m | £m | £m | £m |
| *Comprehensive Income and Expenditure Statement* | | | | |
| Total post employment benefit charged to the (Surplus)/Deficit on the provision of services | 159.4 | 166.7 | 2.6 | 2.8 |
| Other post employment benefit charged to the Comprehensive Income and Expenditure Statement | | | | |
| remeasurements (liabilities and assets) | (457.2) | 418.5 | (0.5) | 4.6 |
| **Total Post Employment Benefits charged to the Comprehensive Income and Expenditure Statement** | (297.9) | 585.1 | 2.1 | 7.4 |

| | 2010/11 £m | 2011/12 £m | 2012/13 £m | 2013/14 £m | 2014/15 £m |
|---|---|---|---|---|---|
| **Present Value of Liabilities** | | | | | |
| - Local Government Pension Scheme | (4,064.5) | (4,409.9) | (5,149.4) | (4,649.9) | (5,548.6) |
| - Unfunded Teachers' Scheme | (66.5) | (66.3) | (71.8) | (67.9) | (69.3) |
| **Total Present Value of Liabilities** | **(4,131.0)** | **(4,476.1)** | **(5,221.2)** | **(4,717.8)** | **(5,617.8)** |
| Fair Value of Assets in the Local Government Pension Scheme | 2,725.0 | 2,743.3 | 3,037.5 | 2,913.2 | 3,324.2 |
| **Surplus/(Deficit) in the scheme** | | | | | |
| - Local Government Pension Scheme | (1,339.5) | (1,666.6) | (2,111.9) | (1,736.7) | (2,224.3) |
| - Unfunded Teachers' Scheme | (66.5) | (66.3) | (71.8) | (67.9) | (69.3) |
| **Net Liability arising from defined benefit obligation** | **(1,406.0)** | **(1,732.9)** | **(2,183.7)** | **(1,804.6)** | **(2,293.6)** |

Pension Assets and Liabilities Recognised in the Balance Sheet

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

| | Local Government Pension Scheme | | | | Unfunded Teacher Pension Scheme | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m |
| Benefit Obligation at 1 April | 5,067.6 | 4,568.8 | 81.8 | 81.1 | 71.8 | 67.9 | 5,221.2 | 4,717.8 |
| Current Service Cost | 106.0 | 89.1 | - | - | - | - | 106.0 | 89.1 |
| Interest on Pension Liabilities | 209.0 | 198.0 | 3.3 | 3.4 | 2.5 | 2.8 | 214.8 | 204.2 |
| Member Contributions | 28.6 | 27.9 | - | - | - | - | 28.6 | 27.9 |
| Past service cost/(gain) | 0.2 | 0.1 | - | - | - | - | 0.2 | 0.1 |
| Actuarial (gains)/losses arising from changes in demographic assumptions | 29.8 | - | 0.3 | - | 2.2 | - | 32.3 | - |
| Actuarial (gains)/losses arising from changes in financial assumptions | (433.7) | 733.5 | (1.8) | 7.5 | (3.5) | 4.6 | (439.0) | 745.6 |
| Experience (gains)/losses on liabilities | (249.6) | - | 3.2 | - | 0.8 | - | (245.6) | - |
| Curtailments | 7.2 | 11.8 | - | - | - | - | 7.2 | 11.8 |
| Settlements | (42.7) | (7.9) | - | - | - | - | (42.7) | (7.9) |
| Benefits/Transfers paid | (153.6) | (158.8) | (5.9) | (5.9) | (5.9) | (6.1) | (165.2) | (170.7) |
| **Benefit Obligation at 31 March** | **4,568.8** | **5,462.5** | **81.0** | **85.9** | **67.9** | **69.3** | **4,717.8** | **5,618.0** |

Reconciliation of the Movements in the Fair Value of Scheme Assets

| | Local Government Pension Scheme | | | | Unfunded Teacher Pension Scheme | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Funded | | Unfunded | | | | | |
| | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m | 2013/14 £m | 2014/15 £m |
| Fair Value of Assets at 1 April | 3,037.5 | 2,913.2 | - | - | - | - | 3,037.5 | 2,913.2 |
| Interest on Plan Assets | 126.4 | 129.3 | - | - | - | - | 126.4 | 129.3 |
| Remeasurements (assets) | (194.5) | 322.5 | - | - | - | - | (194.5) | 322.5 |
| Administration expenses | (1.3) | (1.3) | - | - | - | - | (1.3) | (1.3) |
| Settlements | (1.4) | (0.2) | - | - | - | - | (1.4) | (0.2) |
| Employer contributions | 71.5 | 91.6 | 5.9 | 5.9 | 5.9 | 6.1 | 83.3 | 103.6 |
| Member contributions | 28.6 | 27.9 | - | - | - | - | 28.6 | 27.9 |
| Benefits/transfers paid | (153.6) | (158.6) | (5.9) | (5.9) | (5.9) | (6.1) | (165.3) | (170.8) |
| **Fair Value of Assets at 31 March** | **2,913.2** | **3,324.2** | **-** | **-** | **-** | **-** | **2,913.2** | **3,324.2** |

## Local Government Pension Scheme assets comprised

The analysis of the Local Government Pension Scheme assets has been restated at 31 March 2014 by the scheme's actuaries. The total assets have remained unchanged.

| | 31 March 2014 (Restated) | | | | 31 March 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Percentage of Total | Quoted | Unquoted | Total | Percentage of Total |
| | £m | £m | £m | % | £m | £m | £m | % |
| **Equity Instruments** | | | | | | | | |
| UK Quoted | 289.6 | | 289.6 | 9.9% | 317.1 | | 317.1 | 9.5% |
| UK Unquoted | | 53.3 | 53.3 | 1.8% | | 55.5 | 55.5 | 1.7% |
| Global Quoted | 151.8 | | 151.8 | 5.2% | 242.0 | | 242.0 | 7.3% |
| Global Unquoted | | 304.4 | 304.4 | 10.4% | | 345.7 | 345.7 | 10.4% |
| Europe | 195.5 | | 195.5 | 6.7% | 258.0 | | 258.0 | 7.8% |
| Japan | 52.7 | | 52.7 | 1.8% | 72.5 | | 72.5 | 2.2% |
| Pacific Basin | 119.1 | | 119.1 | 4.1% | 142.6 | | 142.6 | 4.3% |
| North America | 282.3 | | 282.3 | 9.7% | 255.0 | | 255.0 | 7.7% |
| Emerging Markets | 244.1 | | 244.1 | 8.4% | 275.2 | | 275.2 | 8.3% |
| **Sub-total equity** | **1,335.1** | **357.7** | **1,692.8** | **58.1%** | **1,562.4** | **401.2** | **1,963.6** | **59.1%** |
| **Bonds:** | | | | | | | | |
| UK Government | 240.0 | | 240.0 | 8.2% | 261.6 | | 261.6 | 7.9% |
| Other | 312.0 | | 312.0 | 10.7% | 353.7 | | 353.7 | 10.6% |
| **Sub-total bonds** | **552.0** | **-** | **552.0** | **18.9%** | **615.3** | **-** | **615.3** | **18.5%** |
| **Property:** | | | | | | | | |
| UK | 181.8 | | 181.8 | 6.2% | 203.8 | | 203.8 | 6.1% |
| Overseas | - | | - | - | - | | - | - |
| Property Funds | 85.9 | | 85.9 | 2.9% | 86.4 | | 86.4 | 2.6% |
| **Sub-total property** | **267.7** | **-** | **267.7** | **9.2%** | **290.2** | **-** | **290.2** | **8.7%** |
| **Alternatives** | | | | | | | | |
| Commodities | 54.8 | | 54.8 | 1.9% | - | | - | - |
| Infrastructure | 84.8 | | 84.8 | 2.9% | 113.0 | | 113.0 | 3.4% |
| Absolute Return | 185.3 | | 185.3 | 6.4% | 206.1 | | 206.1 | 6.2% |
| **Sub-total Alternatives** | **324.9** | **-** | **324.9** | **11.2%** | **319.1** | **-** | **319.1** | **9.6%** |
| **Cash** | | | | | | | | |
| Cash Instruments | 60.9 | | 60.9 | 2.1% | 39.2 | | 39.2 | 1.2% |
| Cash Accounts | 14.9 | | 14.9 | 0.5% | 96.7 | | 96.7 | 2.9% |
| **Sub-total Cash** | **75.8** | **-** | **75.8** | **2.6%** | **135.9** | **-** | **135.9** | **4.1%** |
| **Total assets** | **2,555.5** | **357.7** | **2,913.2** | **100.0%** | **2,922.9** | **401.2** | **3,324.1** | **100.0%** |

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Mercers Human Resource Consulting Ltd, 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 the 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 2013. The principal assumptions used by the actuary have been:

| Assumptions | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men (years) | 22.9 | 23.0 | 22.9 | 23.0 |
| Women (years) | 25.5 | 25.6 | 25.5 | 25.6 |
| Longevity at 65 for future pensioners: | | | | |
| Men (years) | 25.1 | 25.2 | n/a | n/a |
| Women (years) | 27.8 | 28.0 | n/a | n/a |
| Rate of CPI inflation | 2.4% | 2.0% | 2.4% | 2.0% |
| Rate of increase in salaries | 4.2% | 3.8% | n/a | n/a |
| Rate of increase in pensions | 2.4% | 2.0% | 2.4% | 2.0% |
| Rate for discounting of scheme liabilities | 4.4% | 3.2% | 4.3% | 3.1% |

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

| | Impact on the Defined Benefit Obligation in the Scheme | | |
|---|---|---|---|
| | Change in assumption | Impact on Council Liability | Impact on Council Deficit |
| | £m | % | % |
| Longevity (increase/decrease by 1 year) | 110.4 | 2.0 | 4.8 |
| Rate of inflation (increase/decrease by 0.1%) | 100.1 | 1.8 | 4.4 |
| Rate of change in salaries (increase/decrease by 0.1%) | 23.8 | 0.4 | 1.0 |
| Rate for discounting scheme liabilities | (98.3) | (1.8) | (4.3) |

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 21 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The Council expects to pay £99.6m of contributions to the scheme in 2015/16 on the basis of an equivalent employer's contribution rate of 22.5%.

**Note 13**
**Material Items of Income and Expense and Acquired Operations**

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. A provision of £7.9m (2013/14: £95.8m) for potential liabilities under the Act has been included in the cost of services, allocated to the relevant service lines, and details are given in Note 32.

**Note 14**
**Other Operating Expenditure**

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

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| - | Parish Council Precepts | 0.1 |
| - | Enterprise Zone Growth Payment | 3.8 |
| 57.1 | Integrated Transport Authority Levy | 54.5 |
| 0.3 | Environment Agency Levy | 0.3 |
| 5.2 | Payments re: Housing Capital Receipt Pool | 5.7 |
| 157.8 | (Gains)/Losses on the Disposal of non current assets | 73.1 |
| **220.4** | **Total** | **137.5** |

## Note 15
## Financing and Investment Income and Expenditure

Finance and Investment Income and Expenditure disclosed in the Comprehensive Income and Expenditure Statement is detailed below. The figures for 2013/14 have been restated to reflect the recognition of trading account activity as detailed in Note 5.

| 2013/14 | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Income | Net | | Gross Expenditure | Income | Net |
| £m | £m | £m | | £m | £m | £m |
| 171.6 | - | 171.6 | Interest Payable and Similar charges | 185.6 | - | 185.6 |
| 88.5 | - | 88.5 | Net Interest on the Net Defined Benefit Liability | 74.9 | - | 74.9 |
| - | (14.8) | (14.8) | Interest Receivable and similar income | - | (16.3) | (16.3) |
| 63.1 | (56.4) | 6.7 | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 64.3 | (64.2) | 0.1 |
| - | (20.5) | (20.5) | Other investment income and expenditure | (0.1) | (6.0) | (6.1) |
| **323.2** | **(91.7)** | **231.5** | **Total** | **324.7** | **(86.5)** | **238.2** |

## Note 16
## 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:

| 2013/14 | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure | Income | Net | | Gross Expenditure | Income | Net |
| £m | £m | £m | | £m | £m | £m |
| - | (255.1) | (255.1) | Council Tax Income - Collection Fund | - | (261.8) | (261.8) |
| - | (193.7) | (193.7) | NNDR - Collection Fund | - | (199.7) | (199.7) |
| 16.8 | - | 16.8 | Share of Collection Fund - Council Tax | 5.4 | (7.0) | (1.6) |
| - | (738.2) | (738.2) | Non Ring Fenced Government Grants | - | (655.0) | (655.0) |
| - | (80.1) | (80.1) | Capital Grants and Contributions | - | (67.9) | (67.9) |
| **16.8** | **(1,267.1)** | **(1,250.3)** | **Total** | **5.4** | **(1,191.4)** | **(1,186.0)** |

Further information on government grants received is provided in Note 18.

## Note 17
## Trading Operations

Trading operations are those activities where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. In 2014/15, the Council reviewed its trading units to ensure that the trading activities reported continued to meet the criteria detailed above.

As a result of the review, the information disclosed in the 2013/14 financial year has been restated. 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 15, Financing and Investment Income and Expenditure. Details of units with significant trading activity are as follows.

| 2013/14 (Restated) | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Turnover | Expenditure | (Surplus) / deficit | **Trading activity** | Turnover | Expenditure | (Surplus) / deficit |
| £m | £m | £m | | £m | £m | £m |
| (2.1) | 2.4 | 0.3 | Catering | (2.4) | 2.6 | 0.2 |
| (37.9) | 42.8 | 4.9 | City Serve (Direct Services) | (38.9) | 37.6 | (1.3) |
| (10.4) | 9.0 | (1.4) | Trade Refuse | (11.0) | 10.9 | (0.1) |
| (6.8) | 7.4 | 0.6 | Birmingham Parks and Nurseries | (6.9) | 6.9 | - |
| (1.6) | 1.9 | 0.3 | Birmingham City Laboratories | (1.8) | 1.8 | - |
| (0.7) | 1.3 | 0.6 | Pest Control | (1.1) | 0.9 | (0.2) |
| (3.9) | 4.0 | 0.1 | Procurement | (3.3) | 4.6 | 1.3 |
| (4.5) | 5.8 | 1.3 | Schools' Human Resources | (4.5) | 5.0 | 0.5 |
| (2.3) | 2.4 | 0.1 | Central Payroll | (1.9) | 1.9 | - |
| (1.6) | 3.7 | 2.1 | Other Trading Activities | (1.7) | 2.2 | 0.5 |
| **(71.8)** | **80.7** | **8.9** | | **(73.5)** | **74.4** | **0.9** |
| | | | Allocation of Surplus/Deficit on Trading Operations | | | |
| (15.4) | 17.6 | 2.2 | - consolidated in CIES | (9.3) | 10.1 | 0.8 |
| (56.4) | 63.1 | 6.7 | - consolidated in Note 15, Financing and Investment Income and Expenditure | (64.2) | 64.3 | 0.1 |
| **(71.8)** | **80.7** | **8.9** | | **(73.5)** | **74.4** | **0.9** |

Details of Trading Activities

**City Serve (Direct Services)**
Cityserve provides a facilities management (catering and cleaning) to schools and Community Day Nurseries. It also provides a mobile caretaking service.
Catering has become more complex and challenging in complying with the government's mandatory Nutritional Standards for School Food. Cityserve is committed to a compliant and nutritious provision in each school. Due to the diverse nature of the pupil base across the city the provision in each school is tailored to the pupil profile.

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

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

**Trade Refuse**
Trade Refuse offers a competitive waste management service to businesses and industrial premises and provides Clinical Waste Removal Services, Graffiti Removal, Septic Tank and Cesspit emptying, Containers and Skips, Prepaid Sacks, Hire of Equipment and Special Collection.

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

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

**Procurement Services**
In addition to providing the Council's in house procurement service, contracts to provide work to schools have been won in a competitive environment.

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

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

**Birmingham City Laboratories**
Birmingham City Laboratories (BCL) is an entirely Local Authority owned Consultancy and Test House which is approved to carry out specific United Kingdom Accreditation Services (UKAS) tests. Its specialist team of scientists and engineers are also able to undertake a wide range of on-site and laboratory inspection services, ranging from microscopic analysis of samples, through to full scale testing/appraisal of civil engineering structures.

**Catering**
Civic Catering provides a varied range of catering services for Council official functions and its major administration buildings, and to members of the public and external organisations at various prestigious civic locations across the city. Services provided include catering for weddings and civil partnerships, banquets, private functions, conferences and are tailored to customers' requirements.

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

**Other**
Other trading activities include Shelforce and Schools' Management. Shelforce is part of the Council's employment support services to registered disabled people (predominantly delivering the Work Choice contract on behalf of the Department for Work and Pensions) and through the direct employment of registered disabled people in the manufacture of PVCu windows and doors.

## Note 18
## Grant Income

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

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| | **Credited to Taxation and Non Specific Grant Income** | |
| 470.4 | Revenue Support Grant | 388.1 |
| 121.3 | NNDR Top Up Grant | 123.7 |
| 3.3 | Council Tax Freeze Grant | - |
| 12.9 | New Homes Bonus Grant | 16.2 |
| 18.1 | Schools PFI Grant | 18.2 |
| 50.3 | Highways Management and Maintenance PFI Grant | 50.3 |
| 5.2 | Troubled Families Grant | 2.4 |
| 10.9 | Housing Benefit Administration Grant | 7.8 |
| 5.1 | Discretionary Housing Benefit Grant | 4.1 |
| 6.2 | Local Welfare Provision Programme | 6.2 |
| 18.2 | Education Services Grant | 18.2 |
| 4.8 | Small Business Rate Relief Grant | 5.9 |
| - | Business Rates S31 Grant | 3.4 |
| 11.5 | Other | 10.5 |
| **738.2** | **Revenue Grants credited to Taxation and Non Specific Grant Income** | **655.0** |
| | | |
| | **Credited to Cost of Services** | |
| 20.0 | CCG Contributions including Transfer of Care | 34.8 |
| 12.1 | Adult Education (Skills Funding Agency) | 11.8 |
| 529.9 | HB/CTB Subsidy Grant Claim | 537.2 |
| 767.4 | Dedicated Schools Grant | 747.9 |
| 21.4 | Education Funding Agency | 20.3 |
| 51.5 | Pupil Premium Grant | 62.9 |
| 3.8 | Illegal Money Lending | 3.8 |
| - | Universal Infants Free School Meals Grant | 5.7 |
| - | Health Contribution to Equipment Loan Service | 4.5 |
| 8.0 | NHS Clinical Commissioning Group contributions | 2.1 |
| 78.6 | Public Health Grant | 80.8 |
| 6.8 | Weekly Collection Support Scheme Grant | 20.3 |
| 28.3 | Grants and contributions of less than £3m | 35.4 |
| **1,527.8** | **Total Revenue Grants Credited to Cost of Services** | **1,567.5** |
| **2,266.0** | **Total Revenue Grants** | **2,222.5** |

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| | **Capital Grants** | |
| 26.6 | Education Funding Agency (formerly DSCF fund) | 29.7 |
| 0.3 | Demographic Growth | 0.2 |
| 1.1 | Lottery | - |
| 1.4 | Section 106/278 | 2.0 |
| 2.5 | Centro | 4.0 |
| 3.0 | Department of Health - Community Capacity | 3.4 |
| 6.1 | Centro - Integrated Transport Block | 8.7 |
| 0.3 | Disabled Facilities | - |
| 0.2 | European Regional Development Fund | 2.2 |
| 4.9 | Homes & Community Agency - New Build Programme | 4.4 |
| 24.5 | Department for Transport (inc. Cycle Ambition) | 4.7 |
| - | Home and Communities Agency | 1.0 |
| 0.9 | Public Health England | - |
| 1.5 | Community Energy Savings Programme | - |
| 0.7 | Growing Places | 1.2 |
| - | Contribution from Developer (Paradise) | 4.0 |
| 6.1 | Other | 2.4 |
| **80.1** | **Capital Grants credited to Taxation and Non Specific Grant Income** | **67.9** |
| | **Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services** | |
| 6.9 | Centro - A45 Road Improvement | 2.0 |
| - | Centro – Gateway | 1.0 |
| 3.7 | Disabled Facilities | 4.1 |
| - | Urban Broadband Grant | 3.2 |
| 1.4 | European Regional Development Fund | 8.6 |
| 4.4 | Other | 2.2 |
| **16.4** | **Total Capital Grants funding Revenue Expenditure Under Statute** | **21.1** |
| **96.5** | **Total Capital Grants Received** | **89.0** |

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 2014/15. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS).

## Note 19
## Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE) through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the DfE to fund academy schools in Birmingham. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2013. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2014/15 are as follows:

| | Central Expenditure | Individual Schools Budget | **Total** |
|---|---|---|---|
| | £m | £m | **£m** |
| Final DSG for 2014/15 before academy recoupment | 115.2 | 939.2 | **1,054.4** |
| Academy figure recouped for 2014/15 | | (308.1) | **(308.1)** |
| **Total DSG after Academy recoupment for 2014/15** | **115.2** | **631.1** | **746.3** |
| Plus: Brought forward from 2013/14 | 3.3 | - | **3.3** |
| Less: Carry forward to 2015/16 agreed in advance | - | - | **-** |
| **Agreed initial budgeted distribution in 2014/15** | **118.5** | **631.1** | **749.6** |
| In year adjustments | 0.5 | 1.1 | **1.6** |
| **Final budgeted distribution for 2014/15** | **119.0** | **632.2** | **751.2** |
| Less Actual Central Expenditure | (106.4) | | **(106.4)** |
| Less Actual ISB deployed to schools | | (632.2) | **(632.2)** |
| Plus: Council contribution for 2014/15 | - | - | **-** |
| **Carry forward to 2015/16** | **12.6** | **-** | **12.6** |

## Note 20
## Amounts Reported for Resource Allocation Decisions (Segmental Analysis)

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

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

Net expenditure underlying the variance analysis reported to Cabinet in the corporate Revenue Outturn report was as follows. The detail for 2013/14 has been restated to reflect the impact of the changes arising from the changes in accounting for schools and the changes in respect of pension cost allocation and trading accounts set out in Note 5, Prior Period Adjustments.

| | **2013/14** | | | | **2014/15** | |
|---|---|---|---|---|---|---|
| **Gross Expenditure** | **Gross Income** | **Net Expenditure** | **Directorate** | **Gross Expenditure** | **Gross Income** | **Net Expenditure** |
| £m | £m | £m | | £m | £m | £m |
| 1,854.6 | (1,250.8) | 603.8 | People | 1,874.7 | (1,302.0) | 572.7 |
| 604.0 | (360.1) | 243.9 | Place | 614.1 | (386.2) | 227.9 |
| 1,105.0 | (859.9) | 245.1 | Economy | 1,027.4 | (806.7) | 220.7 |
| **3,563.6** | **(2,470.8)** | **1,092.8** | **Total Directorate** | **3,516.2** | **(2,494.9)** | **1,021.3** |

| | **2013/14 (Restated)** | **2014/15** |
|---|---|---|
| | £m | £m |
| Net expenditure in Directorate Analysis | **1,092.8** | **1,021.3** |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis | 284.5 | 75.5 |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | (220.4) | (215.5) |
| **Cost of Services in Comprehensive Income and Expenditure Statement** | **1,156.9** | **881.3** |

## Reconciliation to Subjective Analysis

| 2014/15 | **Directorate Analysis** | Amounts not included in Analysis but within CIES | Amounts included in Analysis but not included in CIES | Allocation of Support Service Recharges | **Cost of Services in CIES** | Amounts reported below the Net Expenditure of Continuing Operations in the CIES | **Total** |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Fees, charges and other service income | (356.4) | 60.4 | (242.6) | | (538.6) | (64.2) | (602.8) |
| Support service recharges | (423.9) | | | 423.9 | - | | - |
| Collection Fund Surplus | | | | | - | (7.0) | (7.0) |
| Interest and investment income | (9.6) | | 9.6 | | - | (22.3) | (22.3) |
| Income from Council Tax | | | | | - | (261.8) | (261.8) |
| Government grants and contributions | (1,705.0) | | 116.5 | | (1,588.5) | (922.6) | (2,511.1) |
| **Total income** | **(2,494.9)** | **60.4** | **(116.5)** | **423.9** | **(2,127.1)** | **(1,277.9)** | **(3,405.0)** |
| | | | | | | | |
| Employee expenses | 1,074.2 | 0.6 | | | 1,074.8 | | 1,074.8 |
| Other service expenses | 1,966.5 | (62.7) | (99.0) | | 1,804.8 | 68.0 | 1,872.8 |
| Support service recharges | 311.3 | 1.8 | | (423.9) | (110.8) | | (110.8) |
| Collection Fund Deficit/Capital Grants Repaid | | | | | - | 5.4 | 5.4 |
| Depreciation, amortisation and impairment | 164.2 | 75.4 | | | 239.6 | | 239.6 |
| Interest payments | | | | | - | 260.5 | 260.5 |
| Precepts and levies | | | | | - | 54.9 | 54.9 |
| Payments to Housing Capital Receipts pool | | | | | - | 5.7 | 5.7 |
| (Gain)/Loss on disposal of non-current assets | | | | | - | 73.1 | 73.1 |
| **Total expenditure** | **3,516.2** | **15.1** | **(99.0)** | **(423.9)** | **3,008.4** | **467.6** | **3,476.0** |
| | | | | | | | |
| **(Surplus)/deficit on the Provision of Services** | **1,021.3** | **75.5** | **(215.5)** | **-** | **881.3** | **(810.3)** | **71.0** |

| **2013/14 comparative figures (Restated)** | **Directorate Analysis** | Amounts not included in Analysis but within CIES | Amounts included in Analysis but not included in CIES | Allocation of Support Service Recharges | **Cost of Services in CIES** | Amounts reported below the Net Expenditure of Continuing Operations in the CIES | **Total** |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | **£m** | **£m** | **£m** | **£m** |
| Fees, charges and other service income | (594.9) | 45.9 | (137.9) | | (686.9) | (56.4) | (743.3) |
| Support service recharges | (325.0) | | 1.1 | 311.1 | (12.8) | | (12.8) |
| Collection Fund Surplus | | | | | - | | - |
| Interest and investment income | (6.8) | | 6.8 | | - | (35.3) | (35.3) |
| Income from Council Tax | | | | | - | (255.1) | (255.1) |
| Government grants and contributions | (1,544.1) | | 68.4 | | (1,475.7) | (1,012.1) | (2,487.8) |
| **Total income** | **(2,470.8)** | **45.9** | **(61.6)** | **311.1** | **(2,175.4)** | **(1,358.9)** | **(3,534.3)** |
| | | | | | | | |
| Employee expenses | 1,109.4 | 81.8 | | | 1,191.2 | | 1,191.2 |
| Other service expenses | 2,089.2 | (76.0) | (101.5) | | 1,911.7 | 63.1 | 1,974.8 |
| Support service recharges | 227.9 | | | (311.1) | (83.2) | | (83.2) |
| Collection Fund Deficit | | | | | - | 16.9 | 16.9 |
| Depreciation, amortisation and impairment | 137.1 | 232.8 | | | 369.9 | | 369.9 |
| Interest payments | | | | | - | 260.1 | 260.1 |
| Precepts and levies | | | (57.3) | | (57.3) | 57.4 | 0.1 |
| Payments to Housing Capital Receipts pool | | | | | - | 5.2 | 5.2 |
| (Gain)/loss on disposal of non-current assets | | | | | - | 157.8 | 157.8 |
| **Total expenditure** | **3,563.6** | **238.6** | **(158.8)** | **(311.1)** | **3,332.3** | **560.5** | **3,892.8** |
| | | | | | | | |
| **(Surplus)/deficit on the Provision of Services** | **1,092.8** | **284.5** | **(220.4)** | **-** | **1,156.9** | **(798.4)** | **358.5** |

## Note 21
## Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year. The information for 2013/14 has been restated to recognise school assets as detailed in Note 5, Prior Period Adjustments.

Movements in Balances: 2014/15

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Investment Properties | Assets under construction | Total Property, Plant and Equipment | Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2014** | **1,769.8** | **2,498.9** | **254.5** | **540.1** | **89.5** | **-** | **189.6** | **5,342.4** | ***507.1*** |
| Additions | 135.1 | 73.3 | 22.0 | 56.8 | 1.5 | - | 82.0 | **370.7** | *52.6* |
| Donations | - | - | - | - | - | - | - | **-** | |
| Assets reclassified between categories | - | 2.0 | 0.1 | 10.7 | 0.2 | - | (12.9) | **0.1** | |
| Assets reclassified (to)/from Held for Sale | - | (63.9) | - | - | - | - | - | **(63.9)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | - | 55.6 | (6.8) | - | - | - | - | **48.8** | *(7.1)* |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (73.3) | (107.5) | - | - | - | - | - | **(180.8)** | *(4.4)* |
| Derecognition - Disposals | (17.7) | (128.4) | (68.3) | - | - | - | - | **(214.4)** | *(0.3)* |
| Derecognition - other | (3.1) | - | - | (131.3) | (0.5) | - | - | **(134.9)** | |
| Other movements in cost or valuation | - | (10.8) | - | - | - | 10.8 | - | **-** | |
| **At 31 March 2015** | **1,810.8** | **2,319.2** | **201.5** | **476.3** | **90.7** | **10.8** | **258.7** | **5,168.0** | ***547.9*** |
| | | | | | | | | **-** | |
| **Accumulated Depreciation and Impairment** | | | | | | | | **-** | |
| **At 1 April 2014** | **(109.7)** | **(157.5)** | **(129.1)** | **(147.0)** | **-** | **-** | **-** | **(543.3)** | ***(42.2)*** |
| Depreciation charge | (39.3) | (50.1) | (24.5) | (30.9) | - | - | - | **(144.8)** | *(19.6)* |
| Depreciation written out to the Revaluation Reserve | 38.9 | 18.6 | - | - | - | - | - | **57.5** | *2.8* |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | |
| Impairment (losses)/reversals recognised in the Revaluation Reserve | (108.6) | (18.2) | 10.6 | - | - | - | - | **(116.2)** | *15.2* |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | 73.4 | 61.9 | - | - | - | - | - | **135.3** | *1.9* |
| Derecognition - Disposals | - | 16.9 | 66.7 | 131.4 | - | - | - | **215.0** | |
| Assets reclassified (to)/from Held for Sale | - | 0.6 | - | - | - | - | - | **0.6** | |
| Other movements in depreciation and impairment | - | - | - | - | - | - | - | **-** | |
| **At 31 March 2015** | **(145.3)** | **(127.8)** | **(76.3)** | **(46.5)** | **-** | **-** | **0.0** | **(395.9)** | ***(41.9)*** |
| | | | | | | | | **-** | |
| **Net Book Value** | | | | | | | | **-** | |
| **At 31 March 2015** | **1,665.5** | **2,191.4** | **125.2** | **429.8** | **90.7** | **10.8** | **258.7** | **4,772.1** | ***506.0*** |
| **At 31 March 2014** | **1,660.1** | **2,341.4** | **125.4** | **393.1** | **89.5** | **-** | **189.6** | **4,799.1** | ***464.9*** |

## Movements in Balances:2013/14 (Restated)

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Investment Properties | Assets under construction | Total Property, Plant and Equipment | PFI / Service Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2013** | **1,666.9** | **2,317.3** | **188.4** | **624.6** | **87.6** | **-** | **348.0** | **5,232.8** | ***724.3*** |
| Prior Period Adjustments | - | 149.7 | 39.5 | - | - | - | - | **189.2** | *(296.8)* |
| **Restated Balance at 1 April 2013** | **1,666.9** | **2,467.0** | **227.9** | **624.6** | **87.6** | **-** | **348.0** | **5,422.0** | ***427.5*** |
| Additions | 88.7 | 89.8 | 24.7 | 76.4 | 1.9 | - | 21.3 | **302.8** | *108.2* |
| Donations | - | - | - | - | - | - | - | **-** | |
| Assets reclassified between categories | - | 169.0 | 4.0 | 5.2 | 0.1 | - | (178.3) | **-** | |
| Assets reclassified (to)/from Held for Sale | - | (1.6) | - | - | - | - | - | **(1.6)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | - | 160.5 | - | - | - | - | - | **160.5** | *2.5* |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 36.9 | (216.3) | - | - | - | - | (1.4) | **(180.8)** | *(9.1)* |
| Derecognition – Disposals | (20.3) | (169.5) | (2.1) | - | (0.1) | - | - | **(192.0)** | *(22.0)* |
| Derecognition - other | (2.4) | - | - | (166.1) | - | - | - | **(168.5)** | |
| Other movements in cost or valuation | - | - | - | - | - | - | - | **-** | |
| **At 31 March 2014** | **1,769.8** | **2,498.9** | **254.5** | **540.1** | **89.5** | **-** | **189.6** | **5,342.4** | ***507.1*** |
| | | | | | | | | **-** | |
| **Accumulated Depreciation and Impairment** | | | | | | | | **-** | |
| **At 1 April 2013** | **(78.7)** | **(148.0)** | **(77.0)** | **(251.7)** | **-** | **-** | **-** | **(555.4)** | ***(61.8)*** |
| Prior Period Adjustments | **-** | **-** | (16.3) | **-** | **-** | **-** | **-** | **(16.3)** | ***33.5*** |
| **Restated Balance at 1 April 2013** | **(78.7)** | **(148.0)** | **(93.3)** | **(251.7)** | **-** | **-** | **-** | **(571.7)** | ***(28.3)*** |
| Depreciation charge | (38.9) | (53.4) | (36.9) | (44.2) | - | - | - | **(173.4)** | *(16.2)* |
| Depreciation written out to the Revaluation Reserve | 36.9 | 7.4 | - | - | - | - | - | **44.3** | *0.4* |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | - | - | - | - | - | - | - | **-** | - |
| Impairment (losses)/reversals recognised in the Revaluation Reserve | 7.9 | (21.0) | - | - | - | - | - | **(13.1)** | - |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | (36.9) | 41.6 | - | - | - | - | - | **4.7** | - |
| Derecognition - Disposals | - | 15.5 | 1.1 | 148.9 | - | - | - | **165.5** | *1.9* |
| Assets reclassified (to)/from Held for Sale | - | 0.4 | - | - | - | - | - | **0.4** | - |
| Other movements in depreciation and impairment | - | - | - | - | - | - | - | **-** | - |
| **At 31 March 2014** | **(109.7)** | **(157.5)** | **(129.1)** | **(147.0)** | **-** | **-** | **-** | **(543.3)** | ***(42.2)*** |
| | | | | | | | | **-** | |
| **Net Book Value** | | | | | | | | **-** | |
| **At 31 March 2014** | **1,660.1** | **2,341.4** | **125.4** | **393.1** | **89.5** | **-** | **189.6** | **4,799.1** | ***464.9*** |
| **At 31 March 2013** | **1,588.2** | **2,319.0** | **134.6** | **372.9** | **87.6** | **-** | **348.0** | **4,850.3** | ***399.2*** |

## Revaluations

Operational (other than Housing):
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Peter Jones, Fellow of the Royal Institution of Chartered Surveyors (FRICS), Director of Property and other similarly qualified staff in Birmingham Property Services, Economy Directorate, carried out the valuations, and a Valuation Certificate was issued on 23 June 2015 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. Where assets of a specialist nature require valuation, suitably qualified external experts are used. For 2014/15 the valuation of Tyseley Waste and Household Recovery Centre was undertaken by DVS, the commercial arm of the Valuation Office Agency.

The effective date of the current year's valuation was 1 April 2014, 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. Properties regarded as operational were valued on the basis of Existing Use Value. Where the asset is of a specialist nature, the method of valuation was Depreciated Replacement Cost. During the annual revaluation exercise material assets were componentised in line with the accounting policy. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Housing:
The entire housing stock was valued as at 1 April 2014 by Peter Jones FRICS, and similarly qualified staff in Birmingham Property Services, according to the Department of Communities and Local Government 'Stock Valuation for Resource Accounting - Guidance for Valuers 2010'. The valuation was on the basis of Existing Use Value for Social Housing using sample "Beacon Properties" and a Valuation Certificate was issued in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The valuation was reviewed for any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified.

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

Investment Property
The Council has one asset where it is anticipated that the major return from holding it will be through capital appreciation in the value of the site. As a result the asset has been reclassified as an investment property and valued on the basis of its anticipated market value at 31 March 2015.

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 | Investment Properites | Assets under construction | **Total Property, Plant and Equipment** |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | **£m** |
| Carried at Historical Cost | | | 151.1 | 476.3 | 90.7 | | 258.7 | **976.8** |
| Valued at fair value as at: | | | | | | | | |
| 31 March 2015 | 1,810.8 | 662.6 | 50.4 | | | 10.8 | | **2,534.6** |
| 31 March 2014 | | 384.6 | | | | | | **384.6** |
| 31 March 2013 | | 271.4 | | | | | | **271.4** |
| 31 March 2012 | | 395.3 | | | | | | **395.3** |
| 31 March 2011 | | 605.3 | | | | | | **605.3** |
| **Total cost or valuation** | **1,810.8** | **2,319.2** | **201.5** | **476.3** | **90.7** | **10.8** | **258.7** | **5,168.0** |

### Impairment:

An impairment of £106.0m (2013/14: £70.7m) was made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on HRA dwellings did not add equivalent value. Details are included in Note H3 of the Supplementary Statements.

### Capital Commitments

At 31 March 2015, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgeted to cost £1,081.0m. Similar commitments at 31 March 2014 were £1,094.1m. The major commitments are:

| | **£m** |
|---|---|
| PFI lifecycle costs | 680.9 |
| Paradise Circus Enterprise Zone | 57.9 |
| ICT Infrastructure | 50.6 |
| Grand Central | 44.2 |
| New Wholesale Markets | 42.9 |
| Starbank Basic Needs | 18.3 |
| Connection Opportunity Enterprise | 17.2 |
| Enterprise Zone Developments | 14.7 |
| Gateway New Street Station/Pallasades | 13.8 |
| Refuse Collection Vehicles/Containers | 12.3 |
| Cockhill Blocks | 10.6 |
| SAP Developments | 10.5 |
| Digital Districts | 7.4 |
| Life Sciences | 7.2 |
| Wyley Birch | 6.2 |
| New Zealand Blocks | 6.1 |
| Sparkhill Pool | 5.9 |
| Other projects < £5m | 74.3 |

**Capitalisation of Borrowing Costs**

The Council has adopted an accounting policy of capitalising borrowing costs in relation to qualifying assets. In 2014/15 the amount of borrowing costs capitalised during the period was £5.5m (2013/14: £12.3m). Of this sum, £1.1m of interest related to a specific fixed rate loan of £91.0m taken out in April 2009 at an interest rate of 2.955%. The remaining £4.4m of interest did not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.70% in 2014/15 (2013/14: 4.68%). For 2014/15, interest capitalised by scheme was as follows:

| | **£m** |
|---|---|
| Enterprise Zone | 0.3 |
| Birmingham Gateway New St Station | 0.2 |
| Southside Grand Central | 5.0 |

## Note 22
## Heritage Assets

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

### Heritage Assets Held By the Council:

| | Museum collections | Historic buildings | Public Art | Libraries and Archive collections | Civic Regalia and Plate | Total Assets |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **01 April 2013** | | | | | | |
| - At Cost | 3.5 | 11.1 | 0.4 | - | - | 15.0 |
| - At Valuation | 213.0 | - | - | 15.5 | 1.8 | 230.3 |
| Additions | 0.1 | - | - | - | - | 0.1 |
| Disposals | - | - | - | - | - | - |
| Revaluations | 0.3 | - | - | - | - | 0.3 |
| **31 March 2014** | **216.9** | **11.1** | **0.4** | **15.5** | **1.8** | **245.7** |
| *- At Cost* | *3.6* | *11.1* | *0.4* | *-* | *-* | *15.1* |
| *- At Valuation* | *213.3* | *-* | *-* | *15.5* | *1.8* | *230.6* |
| **31 March 2014** | ***216.9*** | ***11.1*** | ***0.4*** | ***15.5*** | ***1.8*** | ***245.7*** |
| **01 April 2014** | | | | | | |
| - At Cost | 3.6 | 11.1 | 0.4 | - | - | 15.1 |
| - At Valuation | 213.3 | - | - | 15.5 | 1.8 | 230.6 |
| Additions | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - |
| Revaluations | 0.4 | - | - | - | - | 0.4 |
| **31 March 2015** | **217.3** | **11.1** | **0.4** | **15.5** | **1.8** | **246.1** |
| *- At Cost* | *3.6* | *11.1* | *0.4* | *-* | *-* | *15.1* |
| *- At Valuation* | *213.7* | *-* | *-* | *15.5* | *1.8* | *231.0* |
| **31 March 2015** | ***217.3*** | ***11.1*** | ***0.4*** | ***15.5*** | ***1.8*** | ***246.1*** |

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

Where historic cost information is available, the Council has used this when compiling the balance sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered. The Council has estimated that from its insurance records, the value of the Library collection was £15.5m, the Museum's collection was £212.4m and the Civic Regalia was £1.8m as at 1 April 2011. There has been no amendment to these asset valuation based on insurance records at 31 March 2015.

### Museum Collections

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

The Birmingham Museums Trust has acquired a number of small items from various sources during the year. In addition the Trust was bequeathed the Ceramic Collection acquired by the late Stanley Sellers, a Birmingham-born man who worked as an architect in the city for 33 years, and who was a keen supporter of the Birmingham Museum and Art Gallery. Highlights of the collection include Bernard Leach's rustic 'Leaping Salmon' vase, Austrian-born Lucie Rie's brightly coloured modernist bowls, and Dame Barbara Hepworth's bronze sculpture 'Sun and Moon'.

**Historic Buildings and the Historic Environment**

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

**Public Art**

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

**Libraries and Archive Collections**

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

**Civic Regalia and Plate**

The Council owns 233 items of civic regalia and plate, kept either on display, in storage or used on ceremonial and other formal occasions. There is a large variety of items within the collection, the main ones being the City of Birmingham and the Sutton Coldfield Mayoral chains and the respective Maces. The City of Birmingham Mace was cast in silver, in the late 19th Century, by Elkington and Co.

**Additions**

Details of the additions over the last five years are set out below.

**5-year financial summary of heritage asset transactions**

| | 2010/11 £m | 2011/12 £m | 2012/13 £m | 2013/14 £m | 2014/15 £m |
|---|---|---|---|---|---|
| Purchases | | | | | |
| Museum collections | 2.1 | - | 1.5 | 0.1 | - |
| Historic buildings | 0.1 | 0.1 | 0.2 | - | - |
| Public Art | 0.3 | 0.1 | - | - | - |
| Other Acquisitions | | | | | |
| Museum collections | 0.7 | - | 0.6 | 0.3 | 0.4 |
| **Total additions** | **3.2** | **0.2** | **2.3** | **0.4** | **0.4** |

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

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

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

**Note 23**
**Intangible Assets**

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

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

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

| | 2013/14 | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| | 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 | - | 99.9 | 99.9 | - | 126.2 | 126.2 |
| - Accumulated amortisation | - | (56.3) | (56.3) | - | (76.9) | (76.9) |
| **Net carrying amount at start of year** | **-** | **43.6** | **43.6** | **-** | **49.3** | **49.3** |
| Additions: | | | - | | | - |
| - Internal development | - | 26.3 | 26.3 | - | 4.8 | 4.8 |
| - Purchases | - | - | - | - | - | - |
| Other disposals | - | - | - | - | (19.9) | (19.9) |
| Amortisation for the period | - | (20.6) | (20.6) | - | (25.7) | (25.7) |
| Amortisation written out for disposals/transfers | - | - | - | - | 19.9 | 19.9 |
| Other changes | - | - | - | - | - | - |
| Net carrying amount at end of year | - | 49.3 | 49.3 | - | 28.4 | 28.4 |
| Comprising: | | | | | | |
| Gross carrying amounts | - | 126.2 | 126.2 | - | 111.1 | 111.1 |
| Accumulated amortisation | - | (76.9) | (76.9) | - | (82.7) | (82.7) |
| | - | 49.3 | 49.3 | - | 28.4 | 28.4 |

**Note 24**
**Long Term Investments**

On 16 January 2015, the Council announced that it had entered into a binding agreement to sell the National Exhibition Centre Limited (NEC Ltd). As the sale of NEC Ltd had progressed to such an extent the NEC Debentures are considered to be short term investments as they form part of the disposal transactions. Details of the Council's long term investments are summarised below:

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 227.0 | NEC Debentures | - |
| 26.5 | Investment in subsidiary and associated companies | 26.5 |
| 2.1 | Available for Sale Financial Assets | 5.3 |
| 1.4 | Unquoted Equity Investment at Cost | 0.3 |
| **257.0** | **Total** | **32.1** |

**Note 25**
**Long Term Debtors**

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

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 36.7 | External Loans | 37.6 |
| 1.0 | Employee loans | 0.7 |
| 0.3 | Mortgages: former Council House tenants | 0.3 |
| 39.1 | Other debtors | 39.0 |
| **77.1** | **Total** | **77.6** |

**Note 26**
**Short Term Investments**

Details of the amounts invested by the Council that are due for repayment within 12 months are detailed below. The Other Investments include those loans to the NEC that will be included as part of its disposal.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 43.9 | Money Market Funds | 53.6 |
| 27.0 | Financial Institutions | 20.2 |
| 12.1 | Other Investments | 192.4 |
| **83.0** | **Total** | **266.2** |

**Note 27**
**Assets Held for Sale**

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

| | Current | |
|---|---|---|
| | 2013/14 | 2014/15 |
| | £m | £m |
| **Balance outstanding at start of year** | **14.8** | **11.8** |
| Assets newly classified as held for sale: | | |
| - Property, plant and equipment | 2.7 | 68.5 |
| Revaluation gains | 1.7 | 1.4 |
| Impairments (losses)/reversals | 0.2 | (1.1) |
| Assets declassified as held for sale: | | |
| - Property, plant and equipment | (1.4) | (5.2) |
| Assets sold | (6.2) | (6.5) |
| Transfers from non-current to current | - | - |
| Other Movements | - | (0.1) |
| **Balance outstanding at year end** | **11.8** | **68.8** |

In 2014/15, 6 assets have been reclassified as held for sale, with disposal expected in 2015/16.

Included within Assets Held for Sale are those land assets of the National Exhibition Centre which the Council disposed of on 1 May 2015.

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

- The Council values a number of assets at 'fair value'. The size of a receipt from the sale of an asset is heavily dependent on how much the market is willing to pay for a particular asset at any one time and this can fluctuate

- In line with the Code, the Council values some of its assets at Depreciated Replacement Cost (DRC). This includes those associated with the entities that are consolidated into the Group Accounts. Typically, where assets are valued at DRC it is likely that the asset values in the accounts will be higher than those the open market is willing to pay.

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

**Note 28**
**Short-Term Debtors**

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

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 39.5 | Central government bodies | 62.4 |
| 8.3 | Other local authorities | 12.2 |
| 1.4 | NHS bodies | 9.7 |
| 11.0 | Public corporations and trading funds | 0.1 |
| 168.2 | Other entities and individuals | 227.3 |
| **228.4** | **Total** | **311.7** |

**Note 29**
**Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the elements detailed below. The balances as at 31 March 2014 have been restated to reflect the school fund balances as detailed in Note 5.

| 31 March 2014 (Restated) | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 0.8 | Cash held by the Council | 2.7 |
| 43.2 | Bank current accounts | 35.0 |
| (24.6) | Bank Overdrafts | (22.1) |
| **19.4** | **Total** | **15.6** |

**Note 30**
**Short Term Creditors**

The table below shows amounts owed by the Council at the end of the year that are due within 12 months, split by type of organisation.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| (23.6) | Central government bodies | (30.3) |
| (6.3) | Other local authorities | (5.7) |
| (10.6) | NHS bodies | (5.9) |
| (26.3) | Public corporations and trading funds | (33.6) |
| (223.3) | Other entities and individuals | (267.2) |
| **(290.1)** | **Total** | **(342.7)** |

**Note 31**
**Long Term Creditors**

The table below shows amounts owed by the Council at the end of the year that are due after 12 months.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| - | Other entities and individuals | (13.6) |
| **-** | **Total** | **(13.6)** |

**Note 32**
**Provisions**

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

| | Current | | | | Non-current | | | |
|---|---|---|---|---|---|---|---|---|
| | Equal Pay | Business Rates Appeals | Other Provisions | **Total** | Equal Pay | Business Rates Appeals | Other Provisions | **Total** |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance at 1 April 2014** | **180.4** | **-** | **11.1** | **191.5** | **457.8** | **21.3** | **3.2** | **482.3** |
| Additional provisions made in 2014/15 | - | 14.4 | 2.2 | **16.6** | 11.6 | 0.1 | - | **11.7** |
| Amounts used in 2014/15 | (84.8) | (14.1) | (1.3) | **(100.2)** | - | - | - | **-** |
| Transfer between current and non-current provision | 207.8 | 14.1 | 3.2 | **225.1** | (207.8) | (14.1) | (3.2) | **(225.1)** |
| Unused amounts reversed in 2014/15 | - | - | (0.5) | **(0.5)** | (3.4) | - | - | **(3.4)** |
| Unwinding of discounting in 2014/15 | - | - | - | **-** | - | - | - | **-** |
| **Balance at 31 March 2015** | **303.4** | **14.4** | **14.7** | **332.5** | **258.2** | **7.3** | **-** | **265.5** |
| **Balance at 1 April 2013** | 141.5 | - | 3.9 | **145.4** | **548.5** | **-** | **7.2** | **555.7** |

Equal Pay

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equal Pay Act and, as a result, has set aside a provision of £561.6m (2013: £638.2m) that incorporates our best estimate of all unpaid claims received to 31 March 2015, which will be subject to review during the period of the audit. The Council has developed a model to assess the likely costs of claims, gained through the history of claims settled to date. Furthermore, a substantial number of claims received at 31 March 2015, which remain to be settled, are subject to a legal agreement that stipulates the conditions of settlement.

The Secretary of State for Communities and Local Government has issued regulations allowing Local Authorities to use capital receipts received on or after 1 April 2013 to meet back payments associated with implementing the Equal Pay Act 1970. The Council has included both the capital and revenue impacts of equal pay claims in its long term financial plan, Business Plan 2015+.

National Non Domestic Rate Appeals (NNDR)

As a result of the change in the funding of Local Government in 2014/15, local authorities have assumed part of the liability for refunding NNDR payers who have successfully appealed against the rateable value of their properties in the rating list. This liability includes amounts that were collected in respect of both the current year and prior years.

Under the new legislation the Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. These accounts include a provision of £21.7m, set aside to cover the Council's share of the total estimated unpaid liability related to the settlement of all appeals received up to 31 March 2015. The remaining share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority. The Council has developed a model to assess the likely costs of settling appeals, gained through the history of appeals settled to date. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

The Secretary of State for Communities and Local Government has issued regulations allowing Local Authorities to spread the impact of accounting for its share of the backdated element of the appeals provision up to a maximum of five years. The Council has opted to use this regulatory mitigation to spread the impact of the liability.

Other Provisions

Details of the major items included in other provisions are:

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

The National Exhibition Centre Limited Loan Debt
On 21 May 1997, The National Exhibition Centre Developments PLC issued £73m guaranteed unsecured loan stock 2027. The loan stock is guaranteed by Birmingham City Council. The Council received a guarantee fee of £7.932m in 1997 and this is being amortised over the life of the guarantee (1997 to 2027). On completion of the sale of the NEC Group, the balance of the guarantee fee of £3.2m will be released.

Gateway/Grand Central
A provision of £2.6m from the rental income from the units with the former Pallasades Shopping Centre that will be required to fund future lease severance costs or other eligible costs associated with the redevelopment of New Street Station, as prescribed in the Master Agreement with Network Rail.

Highways Bus Lane Enforcement
The provision of £1.9m will be applied in future years to highway improvement schemes.

The Carbon Reduction Commitment
In 2015/16 the Council will have to purchase allowances as a result of mandatory participation in the Government's Carbon Reduction Commitment Energy Efficiency scheme (CRCEES). The quantity of allowances that will be purchased is dependent on the amount of energy used in properties that the Council occupies during 2014/15. In line with the recommended treatment by CIPFA, a provision for this cost has been made in the 2014/15 accounts based on the energy used in 2014/15.

**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 is guaranteeing payment of the full amount on the principal of and interest accruing on the National Exhibition Centre (Developments) PLC loan stock raised in May 1997 for the construction of the four new halls at the NEC. The amount of the loan guaranteed is £73m (2013/14: £73m), due in 2027.

2. 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 2015 of £411.0m and has identified future commitments of £20.6m.

   Partnerships
   Where the Council has accepted the Accountable Body role for grant funding, which involves a wider Partnership arrangement and management of the fund, for example Local Enterprise Partnership (LEP) or the Regional Growth Fund (RGF), the Council's grant liability exists if it is deemed that it has been "unreasonable" in discharging its responsibilities. The Council has quantified this potential liability at 31 March 2015 of £92.2m and has identified future expenditure commitments of £798.6m.

   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.

3. The Council's final Housing Benefit claims for 2013/14 and 2014/15 are still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

4. Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendment) Regulations 2003, employees are entitled to equal pay for work of equal value. The Council has received a number of claims under the Equal Pay Act and, as a result,

has set aside a provision of £561.6m (31 March 2014: £638.2m) which incorporates all claims received and negotiations agreed to 31 March 2015.

Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are major uncertainties surrounding the volume and timing of future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in Business Plan 2015+, which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated from 1 April 2013 to meet equal pay costs.

5. Local Authorities were entitled to charge, under Section 93(1) of the Local Government Act 2003 and subsequently the Local Authorities (Charges for Property Searches)(England) Regulations 2008, for personal searches of the Local Land Charges Register. However, these charges were contrary to the Environmental Information Regulations 2004 which states that Public Authorities (such as the Council) are not able to charge for access to environmental data, which includes information held on the Local Land Charges Register. Claims are being brought against Local Authorities for personal search fees charged between 1 January 2005 and August 2010. The claims are being handled, on behalf of all Local Authorities, by the Local Government Association. If the claims are successful, the Council faces a potential liability of up to £5m.

6. The Council is currently in partnership arrangements with Network Rail that is carrying out development of New Street Station and the Pallasades shopping centre through the Gateway and Grand Central projects. As part of the arrangements, should there be cost overruns above the agreed funding arrangements the Council may be required to make an additional contribution to the projects.

7. The Council is facing a number of compensation claims from former employees for current health issues and from people who attended Council schools. Currently the validity of any claims is being assessed.

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 substantially increased. As a result, the Scheme of Arrangement was enacted in 2013/14 and an Administrator has been appointed.
   At present, the Administrator has announced a levy of 15% on claims paid since 1 October 1993 and the Council has incurred costs of £0.4m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

Contingent Assets

At 31 March 2015 the Council has identified the following material contingent asset.

1. The Council has been undertaking a review of its major contracts. It has identified that there have been payments made not in accordance with its interpretation of the full terms and conditions of the associated contracts. Through discussions with the relevant contractors, the Council is investigating the potential for the recovery of overpayments. Given the current status of these discussions and their sensitivity, the Council does not consider that further disclosure would be in its best interests at this time.

**Note 34**
**Council Borrowing**

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

| 2013/14 | | | 2014/15 | |
|---|---|---|---|---|
| Long Term | Short Term | | Long Term | Short Term |
| £m | £m | | £m | £m |
| 100.5 | 109.0 | Lender's Option Borrower's Option (LOBO) loans | 110.5 | 98.8 |
| 340.8 | 4.4 | Local Bonds | 336.5 | 4.6 |
| 2,204.9 | 91.0 | Public Works Loan Board | 2,221.0 | 55.5 |
| - | 365.4 | Other Borrowing (mainly Other Local Authorities) | - | 444.9 |
| **2,646.2** | **569.8** | **Total** | **2,668.0** | **603.8** |

**Note 35**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the following items:

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| (14.8) | Interest received | (16.3) |
| 171.6 | Interest paid | 185.6 |
| (20.5) | Dividends received | (6.2) |
| **136.3** | | **163.1** |

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

The cash flow investing balances have been restated for 2013/14 to reflect the prior period adjustment in respect of the recognition of capital expenditure in local authority maintained schools as detailed in Note 5. The cash flows from investing activities include the following.

| 2013/14 (Restated) £m | | 2014/15 £m |
|---|---|---|
| (225.6) | Purchase of property, plant and equipment, investment property and intangible assets | (325.1) |
| (3,545.7) | Purchase of short-term and long-term investments | (3,191.8) |
| (1.2) | Other payments for investing activities | - |
| 44.0 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 57.9 |
| 3,578.5 | Proceeds from short-term and long-term investments | 3,198.2 |
| 0.3 | Other receipts from investing activities | 0.3 |
| **(149.7)** | **Net cash flows from investing activities** | **(260.5)** |

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

The cash flows from financing activities include the following..

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| 93.6 | Other receipts from financing activities | 67.1 |
| 723.3 | Cash receipts of short-term and long-term borrowing | 2,069.8 |
| (25.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (28.5) |
| (760.7) | Repayments of short-term and long-term borrowing | (2,014.1) |
| - | Other payments for financing activities | (2.7) |
| **31.2** | **Net cash flows from financing activities** | **91.6** |

**Note 38**
**Cash Flow – Other Adjustments**

The balances have been restated for 2013/14 to reflect the prior period adjustment in respect of the recognition of capital expenditure in local authority maintained schools as detailed in Note 5. The cash flow adjustments to the net surplus/deficit on the provision of services include:

| 2013/14 (Restated) £m | | 2014/15 £m |
|---|---|---|
| 173.4 | Depreciation/Impairment charge | 144.8 |
| 20.6 | Amortisation of Intangible Assets | 25.7 |
| - | Amortisation of Financial Instruments | 34.6 |
| 175.9 | Revaluation of Non-Current Assets | 46.7 |
| 201.1 | Derecognition of Non-Current Assets | 140.9 |
| 9.3 | (Increase)/Decrease in Debtors | (82.8) |
| 4.2 | Increase/(Decrease) in Creditors | 58.9 |
| 0.3 | (Increase)/Decrease in Inventories | - |
| (27.2) | Increase/(Decrease) in Provisions | (75.9) |
| 78.7 | Pensions Liability | 65.8 |
| **636.3** | | **358.7** |

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

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| (80.1) | Capital Grants | (67.1) |
| (44.3) | Capital Receipts | (58.2) |
| (13.6) | Council Tax and NNDR Adjustments | 2.7 |
| **(138.0)** | | **(122.6)** |

## Note 39
## Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet. The cash balances for 2013/14 have been restated to reflect the recognition of school balances.

| | Long Term | | Current | |
|---|---|---|---|---|
| | 31 March 2014 | 31 March 2015 | 31 March 2014 (Restated) | 31 March 2015 |
| | £m | £m | £m | £m |
| **Investments** | | | | |
| Loans and receivables | 227.0 | - | 83.0 | 266.2 |
| Available-for-sale financial assets | 2.1 | 5.3 | - | - |
| Unquoted equity investment at cost | 1.4 | 0.3 | - | - |
| Financial assets at fair value through profit and loss | - | - | - | - |
| **Total** | **230.5** | **5.6** | **83.0** | **266.2** |
| *Investments that are not financial instruments* | 26.5 | 26.5 | - | - |
| **Total investments** | **257.0** | **32.1** | **83.0** | **266.2** |
| **Debtors** | | | | |
| Loans and receivables | 37.6 | 38.3 | 4.5 | 5.2 |
| Financial assets carried at contract amounts | - | - | 148.5 | 225.6 |
| **Total** | **37.6** | **38.3** | **153.0** | **230.8** |
| *Debtors that are not financial instruments* | 39.5 | 39.3 | 75.4 | 80.9 |
| **Total debtors** | **77.1** | **77.6** | **228.4** | **311.7** |
| **Cash** | | | | |
| Loans and receivables | | | 44.0 | 37.7 |
| **Total cash: asset** | | | 44.0 | 37.7 |
| Financial liabilities at amortised cost | | | (24.6) | (22.1) |
| **Total cash: liability** | | | (24.6) | (22.1) |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | (2,646.2) | (2,668.0) | (569.8) | (603.8) |
| Financial liabilities at fair value through profit and loss | - | - | - | - |
| **Total** | (2,646.2) | (2,668.0) | (569.8) | (603.8) |
| *Borrowings that are not financial instruments* | - | - | - | - |
| **Total borrowings** | **(2,646.2)** | **(2,668.0)** | **(569.8)** | **(603.8)** |
| **Other Long Term Liabilities** | | | | |
| PFI and finance lease liabilities | (443.5) | (458.6) | | |
| **Total** | (443.5) | (458.6) | | |
| *Other long term liabilities.* | (69.8) | (69.3) | | |
| **Total long term liabilities** | **(513.3)** | **(527.9)** | | |
| **Creditors** | | | | |
| Financial liabilities at amortised cost | - | - | - | - |
| Financial liabilities carried at contract amount | - | - | (193.6) | (261.8) |
| **Total** | - | - | (193.6) | (261.8) |
| *Creditors that are not financial instruments* | - | (13.6) | (96.4) | (80.8) |
| **Total creditors** | **-** | **(13.6)** | **(290.0)** | **(342.6)** |

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 £16.0m, pays a fixed interest rate of 5% and matures in 2043. During the development phase of the project, interest was rolled up in the loan. In 2014/15, Warwickshire Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. Bullet payments are due at the end of the 18 month deferral period. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

Marketing Birmingham received a loan of £1.1m in 2012 to support the creation of the Birmingham Business Hub at Baskerville House. The loan is deemed to be a material soft loan and is carried in the accounts at £0.7m, pays an interest rate of 2.2% and matures in 2022.

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

| | 2013/14<br>£m | 2014/15<br>£m |
|---|---|---|
| **Opening balance** | **15.6** | **15.8** |
| Nominal value of new loans granted in year | - | 0.8 |
| Fair value adjustment on initial recognition | - | (0.2) |
| Loans repaid | (0.3) | (0.1) |
| Impairment losses | - | - |
| Increase in discount | 0.5 | 0.5 |
| **Closing Balance at end of year** | **15.8** | **16.8** |
| Nominal value at 31 March | 22.3 | 22.6 |

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made is arrived at by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid.

Income, Expenses, Gains and Losses

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

| | 2013/14 | | | | 2014/15 | | | |
|---|---|---|---|---|---|---|---|---|
| | Financial Liabilities measured at amortised cost | Financial Assets:Loans and Receivables | Financial Assets: Available for Sale | **Total** | Financial Liabilities measured at amortised cost | Financial Assets:Loans and Receivables | Financial Assets: Available for Sale | **Total** |
| | £m | £m | £m | **£m** | £m | £m | £m | **£m** |
| Interest Expense | 171.6 | | | **171.6** | 185.6 | | | **185.6** |
| **Total expense in (Surplus)/Deficit on the Provision of Services** | **171.6** | **-** | **-** | **171.6** | **185.6** | | | **185.6** |
| Interest and Dividend Income | | (14.8) | (20.5) | **(35.3)** | | (16.3) | (6.2) | **(22.5)** |
| **Total income in (Surplus)/Deficit on the Provision of Services** | **-** | **(14.8)** | **(20.5)** | **(35.3)** | | **(16.3)** | **(6.2)** | **(22.5)** |
| Gains on Revaluation | | | (0.4) | (0.4) | | | (4.9) | (4.9) |
| **(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure** | | | **(0.4)** | **(0.4)** | | | **(4.9)** | **(4.9)** |
| **Net (gain)/loss for the year** | **171.6** | **(14.8)** | **(20.9)** | **135.9** | **185.6** | **(16.3)** | **(11.1)** | **158.2** |

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB loan cash flows are discounted at the PWLB premature repayment rate
- Other long term fixed rate loans are valued based on an estimate of the rate payable for a new loan on the same terms
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- Unquoted equity investments are valued at cost until a reliable fair value can be established
- Financial instruments that are consolidated into group accounts are shown at the carrying amount.

The fair values of financial liabilities are calculated as follows:

| | 31 March 2014 | | 31 March 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £m | £m | £m | £m |
| Creditors | (193.6) | (193.6) | (261.8) | (261.8) |
| Borrowings | (3,216.0) | (3,825.5) | (3,271.8) | (4,500.6) |
| Other Long Term Liabilities | (513.3) | (522.5) | (527.9) | (794.0) |
| **Total** | **(3,922.9)** | **(4,541.6)** | **(4,061.5)** | **(5,556.4)** |

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

The fair values of financial assets are calculated as follows:

| | 31 March 2014 | | 31 March 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | £m | £m | £m | £m |
| Investments | 313.5 | 313.5 | 271.8 | 271.8 |
| Debtors | 190.6 | 188.3 | 269.1 | 272.4 |
| **Total** | **504.1** | **501.8** | **540.9** | **544.2** |

The fair value of the assets at 31 March 2015 is higher than the carrying amount because the Council's portfolio of 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 gain (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates.

## Note 40
## Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit Risk

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

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

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

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

Significant changes in banking regulation have taken place to address some of the issues arising from the banking crisis, and unsecured lenders will be more exposed to losses from bank failure under EU and UK 'bail in' rules. The Council has, therefore, introduced an additional risk category for Banks and Building Societies and will seek to use secured forms of lending such as covered bonds and repo agreements. However, these instruments are not generally available for short term and smaller size deposits.

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

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

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

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

The Council's maximum exposure to credit risk, in relation to its investments in financial institutions, cannot be assessed generally, as the risk of any institution failing to make due payments will be specific to each individual institution. In relation to the Council's outstanding treasury deposits with financial institutions, local authorities and other institutions, no such deposits have defaulted in the year or are impaired. A risk of irrecoverability applies to all deposits, but there is no evidence at 31 March 2015 that this was likely to crystallise.

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

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

| | Amount outstanding | Historical experience of default | Estimated experience of default | Estimated maximum exposure to default and uncollectability at 31 March 2015 | Estimated maximum exposure at 31 March 2014 |
|---|---|---|---|---|---|
| | £m | | | £m | £m |
| Service investments | 5.3 | 1.2 | 12% | 0.7 | 1.1 |

Liquidity Risk

Liquidity risk arises from the need to borrow to finance capital expenditure, loan maturities and other payments. The Council has a comprehensive cash flow management system that measures liquidity and seeks to ensure that cash is available as needed. The Council has ready access to loans from the Public Works Loans Board (PWLB) in accordance with the PWLB circulars currently in force, and there is no significant risk that it will be unable to raise finance to meet its commitments. The Council sets limits on the proportion of its fixed rate borrowing maturing in specified periods. The maturity analysis of financial liabilities is as follows:

| | 31 March 2014 £m | 31 March 2015 £m |
|---|---|---|
| Less than 1 year | (884.4) | (968.4) |
| Between 1 and 2 years | (174.2) | (196.3) |
| Between 2 and 5 years | (204.9) | (243.9) |
| Between 5 and 20 years | (1,291.2) | (1,301.8) |
| Between 20 and 40 years | (1,007.4) | (1,036.0) |
| Over 40 years | (481.8) | (431.5) |
| **Total** | **(4,043.9)** | **(4,177.9)** |

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

Market Risk

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

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

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

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

At 31 March 2015, 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 | 4.4 |
| Increase in interest receivable on variable rate investments | (0.7) |
| Impact on Surplus/(Deficit) on the Provision of Services | 3.7 |
| Share of overall impact debited to the HRA | 0.2 |
| Decrease in fair value of fixed rate investment assets | 2.4 |
| Impact on Other Comprehensive Income and Expenditure | 2.4 |
| | |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus/(Deficit) on the Provision of Services or Other Comprehensive Income and Expenditure) | (531.2) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2015.

In 2005, the Council acquired NEC (Finance) plc loan stock of which £192.4m remains to be repaid to the Council (31 March 2014: £192.4m). The loan stock is secured on an equal amount of NEC Ltd loan stock, which is itself guaranteed by the Council. The outstanding loan stock consideration was settled on completion of the sale of NEC Group.

*Price Risk*

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

## Note 41
## Capital Expenditure and Capital Financing

The Council's capital expenditure on an accruals basis, analysed between types of asset, is summarised below. This also includes revenue expenditure funded from capital under statute. The detail for 2013/14 has been restated to reflect the recognition of capital expenditure within schools as detailed in Note 5, Prior Period Adjustments.

| | 31 March 2014 (Restated) £m | 31 March 2015 £m |
|---|---|---|
| **Opening Capital Financing Requirement** | **4,183.1** | **4,291.6** |
| | | |
| Capital Investment | | |
| Property, Plant and Equipment | 302.8 | 370.9 |
| Heritage Assets | 0.1 | - |
| Investment Properties | - | - |
| Intangible Assets | 26.3 | 4.8 |
| Revenue Expenditure funded from Capital under Statute | 50.4 | 53.2 |
| Long Term Loans | - | 0.6 |
| Acquisition of Share Capital | 1.2 | 2.9 |
| | | |
| Sources of Finance | | |
| Capital Receipts | (15.8) | (17.7) |
| Government Grants and other Contributions | (83.0) | (117.7) |
| Sums set aside from Revenue: | - | - |
| - Direct Revenue Contributions | (30.4) | (43.5) |
| - Use of Major Repairs Reserve | (46.3) | (68.2) |
| - Minimum Revenue Provision | (89.5) | (121.6) |
| - Voluntary Revenue Provision | - | - |
| | | |
| - Capital Receipts set aside for debt redemption | (7.3) | (7.7) |
| Adjustments to Capital Financing | - | - |
| | | |
| **Closing Capital Financing Requirement** | **4,291.6** | **4,347.6** |
| | | |
| **Explanation of Movements in Year** | | |
| Increase in underlying need to borrow | 3.3 | 5.4 |
| Assets acquired under finance leases | 1.6 | 1.1 |
| Assets acquired under PFI contracts | 103.6 | 49.5 |
| Increase/(decrease) in Capital Financing Requirement | **108.5** | **56.0** |
| | | |
| Movement in Year | **108.5** | **56.0** |

**Note 42**
**Leases**

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

**Authority as the lessee**

***Finance leases***
The Council has acquired a number of buildings and other assets under finance leases. The assets acquired under these leases are carried as either Property, Plant and Equipment or Assets Held for Sale in the Balance Sheet at the following net amounts.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 7.5 | Other Land and Buildings | 14.2 |
| 4.6 | Vehicles, Plant Furniture & Equipment | 3.4 |
| 1.0 | Assets Held for Sale | |
| **13.1** | **Total** | **17.6** |

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 1.4 | - current | 1.2 |
| 2.1 | - non-current | 1.5 |
| 2.1 | Finance costs payable in future years | 2.0 |
| **5.6** | **Minimum lease payments** | **4.7** |

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

| | Minimum lease payments | | Finance lease liabilities | |
|---|---|---|---|---|
| | 31 March 2014 | 31 March 2015 | 31 March 2014 | 31 March 2015 |
| | £m | £m | £m | £m |
| Not later than one year | 1.7 | 1.4 | 1.4 | 1.2 |
| Later than one year and not later than five years | 2.2 | 1.6 | 1.8 | 1.3 |
| Later than five years | 1.7 | 1.7 | 0.2 | 0.2 |
| **Total** | **5.6** | **4.7** | **3.4** | **2.7** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In both 2014/15 and 2013/14, no contingent rents were payable by the Council.

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 2014 £m | | 31 March 2015 £m |
|---|---|---|
| 1.0 | Not later than one year | 0.6 |
| 1.2 | Later than one year and not later than five years | 1.0 |
| 1.1 | Later than five years | 0.9 |
| **3.3** | **Total** | **2.5** |

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

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| 31 March 2014 £m | | 31 March 2015 £m |
|---|---|---|
| 1.4 | Minimum lease payments | 0.8 |
| 0.3 | Contingent rents | 0.1 |
| **1.7** | **Total** | **0.9** |

## Authority as the lessor

***Finance leases***
The Council has leased out property within Birmingham to a number of parties on finance leases. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee, and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

| 31 March 2014 £m | | 31 March 2015 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments): | |
| 0.1 | - current | 0.1 |
| 37.0 | - non-current | 36.8 |
| 207.8 | Unearned finance income | 224.0 |
| (20.3) | Less – Unguaranteed residual value of property | (20.4) |
| **224.6** | **Gross investment in the lease** | **240.5** |

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 2014 | 31 March 2015 | 31 March 2014 | 31 March 2015 |
| | £m | £m | £m | £m |
| Not later than one year | 0.1 | 0.1 | 2.3 | 2.3 |
| Later than one year and not later than five years | 0.3 | 0.1 | 9.2 | 9.0 |
| Later than five years | 36.7 | 36.7 | 213.1 | 229.2 |
| **Total** | **37.1** | **36.9** | **224.6** | **240.5** |

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 2014/15 £1.1m contingent rents were receivable by the Council (2013/14 £1.1m).

***Operating leases***

The Council has leased out property within Birmingham to a number of parties as operating leases.

The future minimum lease payments receivable under non-cancellable leases where the length of lease was greater than 1 year at inception are:

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 11.7 | Not later than one year | 11.7 |
| 34.0 | Later than one year and not later than five years | 31.9 |
| 146.2 | Later than five years | 145.0 |
| **191.9** | **Total** | **188.6** |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 £2.6m contingent rents were receivable by the Council (2013/14 £3.4m).

**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 arrangements, through which assets are constructed or refurbished and services are provided under long-term contracts with private sector firms. These contracts cover Schools, Waste Disposal facilities and Highways Management and Maintenance.

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

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

- Schools. There are 4 separate arrangements in place for the rebuild / refurbishment and management of a total of 24 schools within Birmingham. These arrangements are of varying duration and service providers: 6 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), 4 schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the balance sheet. As at 31 March 2015 there are five schools managed under PFI contracts that have converted to Academy status. Whilst the assets no longer belong to the Council and are thus removed from the balance sheet, the ongoing liability remains as a Council responsibility.

- Birmingham Highways Management and Maintenance arrangement. The contract provides for management and maintenance of all public highway and other contractually designated areas within the Birmingham boundary by the Service Provider. The contract commenced on 7 June 2010, with a contract period of 25 years, and provides for a 5 year period of remediation for all of the main highway assets followed by a 20 year period during which the improved highway condition is maintained. The management element of the contract deals with road space management under legislation and responsibility for the Street Works Register, and services include:
    - Raising highway standards
    - Upgrading street lighting and the Council's traffic management assets
    - Refurbishing the Council's tunnels
    - Maintaining specified street furniture.

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

The Council continues to have full use of the roads and roadside furniture during the period of the arrangement, at the end of which all rights revert to the Council. There are no early termination or period clauses within the PFI arrangement. There have been no changes in the arrangement during 2014/15.

| Payments remaining as at 31 March 2015 | Interest | Repayment of liability | Payment for services | **Total** |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable in 2015/16 | 37.2 | 12.6 | 73.1 | **122.9** |
| Payable within 2 to 5 years | 135.1 | 64.5 | 265.9 | **465.5** |
| Payable within 6 to 10 years | 143.6 | 78.5 | 227.3 | **449.4** |
| Payable within 11 to 15 years | 106.3 | 114.4 | 268.8 | **489.5** |
| Payable within 16 to 20 years | 54.1 | 158.4 | 297.1 | **509.6** |
| Payable within 21 to 25 years | 5.6 | 41.2 | 45.6 | **92.4** |
| **Total** | **481.9** | **469.6** | **1,177.8** | **2,129.3** |

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:

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| 370.1 | Liability outstanding at the start of the year | 448.6 |
| (25.0) | Repayment of liability | (28.5) |
| 103.5 | Lifecycle and further capital expenditure | 49.5 |
| **448.6** | **Liability outstanding at the year end** | **469.6** |

The major part of the expenditure incurred, £49.0m, in respect of the lifecycle and further capital expenditure relates to the continuing upgrade of the City infrastructure, with the remainder incurred on minor enhancements to PFI projects.

Contingent rents, charged to the CIES, as a result of the impact of inflation total £6.1m (2013/14: £4.7m). The outstanding liability identified does not include the impact of future contingent rent.

**Note 44**
**Members' Allowances**

Allowances paid to Members of the Council in 2014/15 totalled £2.7m (2013/14: £2.8m). These figures include Members’ allowances, superannuation contributions and expenses. Further information can be found on the Council's website www.birmingham.gov.uk

## Note 45
## Officers' Remuneration

The remuneration paid to the Council's senior employees is as follows:

| | | Salary, fees and allowances | Pension contributions | Total |
|---|---|---|---|---|
| | | £ | £ | £ |
| M Rogers, Chief Executive and Strategic Director of Economy[1] | 2013/14 | 14,227 | 2,305 | 16,532 |
| | 2014/15 | 182,500 | 38,872 | 221,372 |
| P Dransfield, Deputy Chief Executive [2] | 2013/14 | 150,930 | 24,451 | 175,381 |
| | 2014/15 | 150,930 | 32,148 | 183,078 |
| S Lea, Strategic Director of Place [3] | 2013/14 | 150,930 | 12,225 | 163,155 |
| | 2014/15 | 150,364 | 32,148 | 182,512 |
| P Hay, Strategic Director for People [4] | 2013/14 | 170,584 | 27,635 | 198,219 |
| | 2014/15 | 158,693 | 33,801 | 192,494 |
| J Warlow, Director of Finance (Section 151 Officer) | 2013/14 | 111,150 | 18,006 | 129,156 |
| | 2014/15 | 117,000 | 24,722 | 141,722 |
| Dr A Phillips, Director of Public Health | 2013/14 | 124,076 | 10,133 | 134,209 |
| | 2014/15 | 124,076 | 24,608 | 148,684 |

Notes:
The Council undertook a review of the senior management structure in the 2013/14 finanical year and the changes in responsibilities are set out below. Where the restructure has resulted in senior officers leaving the Council, the posts have been deleted, generating future annual savings and the officers have received payments in respect of redundancy pay, a payment in lieu of notice and, where eligible, gained access to their pension in line with the Council policy in the case of redundancy. With effect from 20 January 2014, the Council operates through three Directorates, namely, Economy, People and Place.

[1] Mark Rogers took up the post of Chief Executive and Strategic Director of Economy with effect from 1 March 2014.

[2] Paul Dransfield, formerly Strategic Director of Corporate Resources, was appointed Deputy Chief Executive with effect from 28 January 2014.

[3] Sharon Lea's post, formerly the Strategic Director of Local Services, was redesignated to Strategic Director of Place with effect from 20 January 2014.

[4] Peter Hay held the post of Strategic Director of Adults and Communities. With effect from 19 July 2013, the role also included the responsibilities of Interim Head for Children, Young People & Families. With effect from 20 January 2014, Peter Hay took on the role of Strategic Director for People.

The recent reviews by Lords Kerslake and Warner and Sir Mike Tomlinson have identified that there is deficiency in senior managerial capacity in the Council, particularly at a time when radical change is required in moving to The Future Council model whilst significantly reducing the cost base. To provide immediate support a post of Interim Director for Service Delivery has been filled. Payments in respect of the interim post holder in 2014/15 were £62,700.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the amounts detailed in the table below. The figures for 2013/14 have been restated to include those staff employed in Voluntary Aided and Foundation schools, which were previously excluded.

| 2013/14 (Restated) | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Teaching Staff & Staff in Schools | Other Council Employees | **Total** | Remuneration band | Teaching Staff & Staff in Schools | Other Council Employees | **Total** |
| No | No | **No** | | No | No | **No** |
| 231 | 187 | **418** | £50,000 - £54,999 | 214 | 168 | **382** |
| 150 | 106 | **256** | £55,000 - £59,999 | 147 | 85 | **232** |
| 118 | 60 | **178** | £60,000 - £64,999 | 110 | 47 | **157** |
| 92 | 56 | **148** | £65,000 - £69,999 | 79 | 53 | **132** |
| 36 | 22 | **58** | £70,000 - £74,999 | 36 | 13 | **49** |
| 25 | 11 | **36** | £75,000 - £79,999 | 25 | 8 | **33** |
| 11 | 20 | **31** | £80,000 - £84,999 | 21 | 13 | **34** |
| 10 | 13 | **23** | £85,000 - £89,999 | 10 | 13 | **23** |
| 10 | 6 | **16** | £90,000 - £94,999 | 9 | 12 | **21** |
| 3 | 7 | **10** | £95,000 - £99,999 | 4 | 12 | **16** |
| 4 | 3 | **7** | £100,000 - £104,999 | 2 | 3 | **5** |
| - | 1 | **1** | £105,000 - £109,999 | 2 | 2 | **4** |
| 1 | 2 | **3** | £110,000 - £114,999 | | 3 | **3** |
| 2 | 3 | **5** | £115,000 - £119,999 | 1 | 1 | **2** |
| 2 | 1 | **3** | £120,000 + | 1 | 3 | **4** |
| **695** | **498** | **1,193** | | **661** | **436** | **1,097** |

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

The 'Other Council Employees' figures in the above table include employees with planned termination payments, 77 in 2014/15 (103 in 2013/14). Excluding employees in receipt of planned termination payments, 359 employees in 2014/15 (395 in 2013/14) received remuneration of £50,000 or more.

The reduction in the number of Teaching Staff and Staff in Schools is mainly due to the conversion of a number of schools to Academy Status, which are excluded from the Council's financial statements.

## 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.

| 2013/14 | | | | | | | 2014/15 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Voluntary | | **Total** | | Value of individual package | Compulsory | | Voluntary | | **Total** | |
| No | £m | No | £m | **No** | **£m** | £000 | No | £m | No | £m | **No** | **£m** |
| | | 2 | 0.5 | **2** | **0.5** | £150+ | - | - | 7 | 1.5 | **7** | **1.5** |
| | | 14 | 1.7 | **14** | **1.7** | £100 - £150 | 1 | 0.1 | 12 | 1.4 | **13** | **1.5** |
| | | 28 | 2.4 | **28** | **2.4** | £80 - £100 | 1 | 0.1 | 13 | 1.2 | **14** | **1.3** |
| 2 | 0.1 | 55 | 3.7 | **57** | **3.8** | £60 - £80 | 1 | 0.1 | 23 | 1.6 | **24** | **1.7** |
| 4 | 0.2 | 81 | 3.9 | **85** | **4.1** | £40 - £60 | 2 | 0.1 | 53 | 2.6 | **55** | **2.7** |
| 9 | 0.2 | 256 | 7.1 | **265** | **7.3** | £20 - £40 | 5 | 0.1 | 232 | 6.3 | **237** | **6.4** |
| 61 | 0.4 | 706 | 5.5 | **767** | **5.9** | less than £20 | 33 | 0.2 | 506 | 4.5 | **539** | **4.7** |
| **76** | **0.9** | **1,142** | **24.8** | **1,218** | **25.7** | **Total** | **43** | **0.7** | **846** | **19.1** | **889** | **19.8** |

In addition to the costs of exit packages identified above, the Council incurred costs of £0.1m in 2014/15 (£0.1m in 2013/14) 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.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| 0.4 | Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year | 0.4 |
| 0.1 | Fees payable to Grant Thornton for the certification of grant claims and returns for the year | - |
| **0.5** | **Total** | **0.4** |

**Note 48**
**Related Parties**

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

Chinnbrook Family and Community Project
Evenbrook
MEL Research Limited
Stonham (part of Home Group)

The value of transactions for other, non-consolidated, related parties was net expenditure of £0.3m (£0.5m expenditure and £0.2m income).

During 2014/15, works and services to the value of £302.1m, inclusive of VAT, were commissioned from related parties of which £44.2m remains outstanding. Additionally £73.4m, inclusive of VAT, was received during 2014/15 from companies in which the Council had a related party interest of which £47.7m remains outstanding. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2015 are £31.7m of investments, £196.9m of Assets Held for Sale (NEC) and £44.5m of loans (of which £39.1m is repayable after 31 March 2016).

Central Government
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Housing Benefits). Grants received from Government departments are set out in the subjective analysis in Note 20 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2015 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 2014/15 is shown in Note 44.

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

Greater Birmingham and Solihull Business Rates Pooling Arrangement

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

The Council entered into a pooled budget arrangement in 2013/14 with seven other local authorities, as detailed in the table below, following the introduction of the Business Rates Retention Scheme. This arrangement has continued in 2014/15. The objective of the Pool is to adopt a strategic approach to promoting growth and job creation that supports the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for Growth, which includes:

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

The table below summarises the financial activity for the year:

| | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Funding provided to the pooled budget | | | | |
| Birmingham City Council | - | | - | |
| Bromsgrove District Council | 8.9 | | 9.0 | |
| Cannock Chase District Council | 10.4 | | 10.3 | |
| East Staffordshire Borough Council | 18.0 | | 18.3 | |
| Lichfield District Council | 10.8 | | 11.0 | |
| Redditch Borough Council | 11.9 | | 12.2 | |
| Solihull Metropolitan Borough Council | 25.0 | | 25.6 | |
| Tamworth Borough Council | 10.5 | | 10.4 | |
| | | 95.5 | | 96.8 |
| Expenditure met from the pooled budget | | | | |
| Birmingham City Council | 94.8 | | 96.8 | |
| Bromsgrove District Council | - | | - | |
| Cannock Chase District Council | 0.1 | | - | |
| East Staffordshire Borough Council | - | | - | |
| Lichfield District Council | - | | - | |
| Redditch Borough Council | 0.2 | | - | |
| Solihull Metropolitan Borough Council | - | | - | |
| Tamworth Borough Council | 0.1 | | - | |
| | | 95.2 | | 96.8 |
| Net surplus arising from the pooled budget during the year | | 0.3 | | 0.0 |

The table above is based on information available at the time of compiling the 2014/15 Statement of Accounts. On finalisation of the business rates income (post audit), it is possible that there will be some additional income to be re-allocated, but this will not be of a material nature.

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

Other Public Bodies - Pooled Budgets

The Council is in a pooled budget arrangement with the Clinical Commissioning Groups (CCGs) covering the Birmingham area 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, and the Council hosts the Learning Disability element with the combined CCGs acting as host in relation to Mental Health Services. During 2014/15 a balanced budget position has again been achieved. The table below summarises the financial activity for the year:

| | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Funding provided to the pooled budget | | | | |
| Birmingham City Council | 122.6 | | 120.0 | |
| Cross City CCG | 111.0 | | 102.6 | |
| South Central CCG | 33.8 | | 38.9 | |
| Sandwell and West Birmingham CCG | 30.1 | | 33.3 | |
| | | 297.5 | | 294.8 |
| Expenditure met from the pooled budget | | | | |
| Birmingham City Council | 122.6 | | 120.0 | |
| Cross City CCG | 111.0 | | 102.6 | |
| South Central CCG | 33.8 | | 38.9 | |
| Sandwell and West Birmingham CCG | 30.1 | | 33.3 | |
| | | 297.5 | | 294.8 |
| Net surplus arising from the pooled budget during the year | | - | | - |

In 2014/15, the Council became accountable body for the Equipment Loan Store through an agreement under section 75 of the NHS Act 2006 with the CCGs covering the Birmingham area. The purpose of the arrangement is to work in an integrated way to allow citizens across the health system access to equipment to enhance the quality of their lives. In 2015/16, the arrangement will form part of the Better Care Fund pooled budget. Details of the financial activity for the year are detailed below:

| | 2014/15 | |
|---|---|---|
| | £m | £m |
| Funding provided to the pooled budget | | |
| Birmingham City Council | 1.7 | |
| Cross City CCG | 2.6 | |
| South Central CCG | 1.3 | |
| Sandwell and West Birmingham CCG | 0.6 | |
| | | 6.2 |
| Expenditure met from pooled budget | | |
| Birmingham City Council | 1.7 | |
| Cross City CCG | 2.6 | |
| South Central CCG | 1.3 | |
| Sandwell and West Birmingham CCG | 0.6 | |
| | | 6.2 |
| Net surplus on the pooled budget | | - |

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 2014/15.

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

| | **Expenditure** | **Income** | **Debtor balance at year end** | **Creditor balance at year end** |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| The National Exhibition Centre Limited | 29.8 | 19.3 | 16.0 | 16.8 |
| The National Exhibition Centre (Developments) | - | 0.2 | - | - |
| Innovation Birmingham Limited | 1.6 | 0.2 | 0.2 | - |
| Performances (Birmingham) Limited | 2.6 | 0.1 | - | - |
| Acivico Limited | 42.3 | 4.2 | 5.7 | 12.8 |
| Birmingham Museums Trust | 9.1 | 2.4 | - | 0.3 |

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

| | **Expenditure** | **Income** | **Debtor balance at year end** | **Creditor balance at year end** |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Birmingham Airport Holdings Limited (BAH) | 3.2 | 2.1 | 0.8 | 0.5 |
| Service Birmingham Limited | 120.6 | 31.0 | 13.5 | 6.8 |

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. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2014/15.

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

<u>Entities where the Council has some influence</u>

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2014/15.

Auctus*
Big Button
Birmingham Wheels Ltd
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*
Birmingham Research Park Ltd*
Birmingham Schools SPC Holdings Phase 1A Limited
Birmingham Schools SPC Phase 1A Limited*
Birmingham Schools SPC Holdings Phase 1B Limited
Birmingham Schools SPC Phase 1B Limited*
Bridge Street Management Ltd
Central Technology Belt
Closed Questions (Vote Here Ltd)
Concurrent Thinking
Crowd Technologies
Droplet Online
Finds You
Foodient/Whisk
Host My Portfolio/Hobzy
Inspyra Technologies
Local Finance Capital Company Ltd
Marketing Birmingham*
Matchbox Enterprises Ltd
Midlands Industrial Association Ltd
Owned It
Paradise Circus General Ltd*
Paradise Circus Limited Partnership
Pure Mobile*
Skips
Socially Accepted Games T/A Soshi
Stockfield Community Association
Stockfield Community Association (Subsidiary) Ltd
The Review Business*
Veolia Environmental Services Birmingham Ltd*

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 2014/15.

Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd
Birmingham Conservation Trust*
Birmingham Disability Resource Centre*
Birmingham Hippodrome Theatre Trust Ltd
Birmingham Opera Company*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Broad Street Partnership Ltd
Castle Vale Neighbourhood Partnership Board
Centro*
City of Birmingham Symphony Orchestra*
Dance Xchange*
Erdington Town Centre Partnership*
Jewellery Quarter Development Trust CIC*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust*
Retail B'ham Limited*
St Basils*
S4E
St. Paul's Community Development Trust*
The Birmingham Repertory Theatre*
The Drum/ Newtown Cultural Project*
Warwickshire County Cricket Club*
West Midlands Arts Trust
WLCA Enterprises Ltd
Witton Lodge Community Association Ltd*

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has member representation on BIDs within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2014/15.

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

**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 into the Council's financial statements as it does not have 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 | 88 | - | 235.1 |
| Accountable Body | 22 | 170.3 | 37.9 |
| Business Rate Pooling | 8 | - | 123.9 |
| Arrangements supporting Housing activities | 16 | 0.6 | 15.7 |
| Reporting of Trust activities | 16 | 21.1 | 0.5 |
| Other transactions | 6 | 0.3 | 0.9 |

*External Payrolls*

The Council provides payroll services to a number of external organisations, including Academy Schools and Colleges of Further Education, using capacity within its payroll software. 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

*Greater Birmingham & Solihull Local Enterprise Partnership*

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

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

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

*Enterprise Zones*

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

Other Roles

*England Illegal Money Lending Team*

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its Accountable Body activities on behalf of the Courts.

*InReach*

The Council set up the wholly owned subsidiary on 31 March 2015. The company will be used to facilitate the development of 92 new private rented homes at market rent at St Vincent Street, Ladywood. The company is not consolidated into the Council's Group Accounts as the level of transactions within the company to date is not considered material to the whole.

*Business Rate Pooling*

Details of the Greater Birmingham and Solihull Business Rates Pooling Arrangement are set out in Note 48 to these financial statements.

*Housing Activities*

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

*Trusts*

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

*Endowments*

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

*Other*

The Council provides accountancy support to:

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

## Note 50
## Trust Funds

The Council administers a number of trust funds which have been established from donations and bequests made to it to meet a variety of objectives and purposes. The total monies held at 31 March 2015 were £27.7m (2013/14: £26.9m). In addition, the Council held £3.5m (2013/14: £3.4m) 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 2014 | Income | Expenditure | Balance at 31 March 2015 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Council acting as Sole Trustee** | | | | |
| Birmingham Municipal Charity General Charitable Objectives | 0.4 | - | - | 0.4 |
| Charles Baker Trust – for the elderly and disabled | 0.3 | - | - | 0.3 |
| Cropwood Estate – management of the estate | 14.7 | - | - | 14.7 |
| Elford Trust – healthy recreation for Birmingham citizens | 3.0 | 0.4 | 0.2 | 3.2 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.7 | - | - | 1.7 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 1.9 | 0.2 | 0.1 | 2.0 |
| **Total Council acting as Sole Trustee** | **22.0** | **0.6** | **0.3** | **22.3** |
| | | | | |
| **Council acting as Custodian** | | | | |
| Alderson – To let dwelling houses to ex-servicemen and other persons in need | 0.1 | 0.1 | (0.1) | 0.3 |
| Bodenham Trust – for children with special educational needs | 0.6 | - | - | 0.6 |
| Clara Martineau Trust – for children with special educational needs | 3.5 | 0.3 | 0.1 | 3.7 |
| Holinsworth Fund – to further the work of voluntary bodies | 0.2 | - | - | 0.2 |
| The Lord Mayor's Charity Appeal – for charitable purposes | 0.1 | 0.1 | - | 0.2 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | 0.1 | 0.1 | 0.2 |
| Other | 0.2 | - | - | 0.2 |
| **Total for Council acting as Custodian** | **4.9** | **0.6** | **0.1** | **5.4** |
| | | | | |
| **Total Trust balances** | **26.9** | **1.2** | **0.4** | **27.7** |

Analysis of the assets of the main funds:

| | Restricted Funds at 31 March 2015 | Unrestricted Funds at 31 March 2015 | Total Funds at 31 March 2015 |
|---|---|---|---|
| | £m | £m | £m |
| **Council acting as Sole Trustee** | | | |
| Birmingham Municipal Charity General Charitable Objectives | 0.4 | - | 0.4 |
| Charles Baker Trust – for the elderly and disabled | 0.1 | 0.2 | 0.3 |
| Cropwood Estate – management of the estate | 0.2 | 14.5 | 14.7 |
| Elford Trust – healthy recreation for Birmingham citizens | 3.2 | - | 3.2 |
| Harriet Louisa Loxton Charity – for the aged and infirm | 1.5 | 0.2 | 1.7 |
| Highbury Trust – for the benefit of the citizens of Birmingham | 2.0 | - | 2.0 |
| **Total Council acting as Sole Trustee** | **7.4** | **14.9** | **22.3** |
| | | | |
| **Council acting as Custodian** | | | |
| Alderson – To let dwelling houses to ex-servicemen and other persons in need | - | 0.3 | 0.3 |
| Bodenham Trust – for children with special educational needs | 0.6 | - | 0.6 |
| Clara Martineau Trust – for children with special educational needs | 3.7 | - | 3.7 |
| Holinsworth Fund – to further the work of voluntary bodies | 0.2 | - | 0.2 |
| The Lord Mayor's Charity Appeal – for charitable purposes | - | 0.2 | 0.2 |
| Moseley Road Friends Institute – provision and maintenance | 0.2 | - | 0.2 |
| Other | - | 0.2 | 0.2 |
| **Total for Council acting as Custodian** | **4.7** | **0.7** | **5.4** |
| | | | |
| **Total** | **12.1** | **15.6** | **27.7** |

# SUPPLEMENTARY FINANCIAL STATEMENTS 2014/15

**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.

| 2013/14 £m | | Note | 2014/15 £m |
|---|---|---|---|
| | **Income** | | |
| (249.8) | Dwellings rents | | (260.6) |
| (6.9) | Non-dwellings rents | | (7.3) |
| (23.9) | Charges for services and facilities | | (21.2) |
| - | Sums Directed by the Secretary of State that are income in accordance with the Code | | - |
| **(280.6)** | **Total Income** | | **(289.1)** |
| | **Expenditure** | | |
| 61.3 | Repairs and maintenance | | 59.7 |
| 78.9 | Supervision and management | H9 | 71.4 |
| 4.5 | Rent, rates, taxes and other charges | | 4.7 |
| 38.9 | Depreciation and impairment charge | H3 & H6 | 39.3 |
| 0.2 | Debt management costs | | 0.2 |
| 7.5 | Movement in the allowance for bad debts (not specified by the Code) | | 7.5 |
| - | Sums Directed by the Secretary of State that are expenditure in accordance with the Code | | - |
| **191.3** | **Total Expenditure** | | **182.8** |
| **(89.3)** | **Net Expenditure or Income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement** | | **(106.3)** |
| 0.1 | HRA share of Corporate and Democratic Core | | 0.1 |
| (1.7) | HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services | | 0.3 |
| **(90.9)** | **Net (Income) / Cost of HRA Services** | | **(105.9)** |

| | | |
|---|---|---|
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:** | |
| 69.0 | Interest payable and similar charges | 56.6 |
| 0.7 | Amortisation of premia and discounts | 0.2 |
| (0.6) | HRA interest and investment income | (0.5) |
| (8.7) | (Gains)/ Losses on the disposal of HRA non-current assets | (14.0) |
| 4.4 | Pensions interest cost and expected return on pensions assets | 3.3 |
| (7.1) | Capital Grants and Contributions Receivable | (5.1) |
| **(33.2)** | **(Surplus)/Deficit for the Year on HRA Services** | **(65.4)** |

**Movement on the Housing Revenue Account Statement**

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| (33.2) | (Surplus)/Deficit for the year on the HRA Income and Expenditure Account | (65.4) |
| 31.2 | Adjustments between accounting basis and funding basis under statute (note 7) | 65.3 |
| **(2.0)** | Net (increase) / decrease before transfers to / (from) reserves | **(0.1)** |
| - | Transfers to / (from) reserves | - |
| **(2.0)** | (Increase) / decrease for the year on HRA balance | **(0.1)** |
| (2.4) | HRA Balance Brought Forward | (4.4) |
| **(4.4)** | HRA Balance Carried Forward | **(4.5)** |

Exceptional Items
Included in the Cost of HRA Services is a credit of £3.4m (2013/14: £3.7m charge) in respect of liabilities under Equal Pay legislation. Further details of the provision are given in Note H9. The impact of this provision is reversed out through the Movement in Reserves Statement so that it doesn't fall as a charge to the HRA until payment is made.

## Notes to the Housing Revenue Account

### H1. Housing Stock

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

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| 3,738 | 1 bedroom bungalows | 3,734 |
| 15,502 | 1 bedroom flats | 15,358 |
| 33 | 1 bedroom houses | 42 |
| 295 | 2 bedroom bungalows | 295 |
| 11,082 | 2 bedroom flats | 10,921 |
| 8,406 | 2 bedroom houses | 8,494 |
| 35 | 3 or more bedroom bungalows | 34 |
| 4,287 | 3 or more bedroom flats | 4,227 |
| 20,040 | 3 or more bedroom houses | 19,838 |
| **63,418** | **Total housing stock** | **62,943** |

The change in the property numbers is analysed below:

| 2013/14 | | 2014/15 |
|---|---|---|
| 64,100 | Stock at 1 April | 63,418 |
| (565) | Sales | (521) |
| (263) | Demolitions / transfers | (275) |
| 146 | Acquisitions | 321 |
| **63,418** | **Stock at 31 March** | **62,943** |

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

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| **£m** | | **£m** |
| 1,660.2 | Council dwellings/garages | 1,665.5 |
| 14.5 | Other land and buildings | 29.2 |
| **1,674.7** | **Total operational assets** | **1,694.7** |
| 32.7 | Non-operational assets | 26.9 |
| **1,707.4** | **Total** | **1,721.6** |

The housing stock, land and other property within the HRA are valued in line with the DCLG Guidance on Stock Valuation for Resource Accounting published in January 2011. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2014/15 of 34%.

The change reflects properties lost through sales, demolitions, acquisitions, and revaluation of Beacon Values and depreciation. £135.1m was spent on HRA dwellings during the year of which £106.0m was impaired as not adding value to the dwellings. This impairment was charged to the revaluation reserve in year.

As at 31 March 2015, the Council also owned 137 dwellings (2014: 173) that were occupied by trespassers following the death or departure of the tenant of that property. These properties are, therefore, not available for social housing. These properties are not considered to have a value whilst they are occupied in this way, but if they were to become available for social housing, their value, on the basis of an Existing Use Value – Social Housing (EUV-SH) would be £3.6m (2014: £4.6m).

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

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| **£m** | | **£m** |
| 392.9 | Land | 398.9 |
| 24.3 | Kitchens | 23.8 |
| 32.2 | Bathrooms | 31.6 |
| 71.2 | Windows | 70.6 |
| 43.4 | Heating | 43.8 |
| 36.8 | Roofs | 38.9 |
| 1,059.4 | Remaining Structure | 1,057.9 |
| **1,660.2** | **Total** | **1,665.5** |

**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 2015 is £4,459.3m

(b) The difference between the above figure and the figure of £1,665.5m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the DCLG's stock valuation model as explained in Supplementary Note H1.

**H3. Revaluations and Impairment Charges**

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. As disclosed in Supplementary Note H1 there was an impairment of £106.0m made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on the assets did not add equivalent value. In addition a revaluation of the HRA dwellings has identified an increase in value of £36.3m, resulting in a net decrease in value of £69.7m. This decrease has been transferred to a revaluation reserve.

### H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below

| 2013/14 | | 2014/15 |
|---|---|---|
| **£m** | | **£m** |
| 52.0 | Balance on Major Repairs Reserve at 1 April | 44.6 |
| 38.9 | Amount transferred to Major Repairs Reserve during the year | 39.3 |
| (46.3) | Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA | (68.1) |
| **44.6** | **Balance on Major Repairs Reserve at 31 March** | **15.8** |

### H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

| 2013/14 | | 2014/15 |
|---|---|---|
| **£m** | | **£m** |
| 15.8 | Usable Capital Receipts (Right to Buy / land) | 17.7 |
| 46.3 | Major Repairs Reserve | 68.1 |
| 17.1 | Revenue contributions | 29.4 |
| - | Prudential Borrowing | 14.0 |
| 9.5 | Other resources | 5.9 |
| **88.7** | | **135.1** |

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £35.6m (land £12.8m, houses £22.8m). The values for 2013/14 were £31.5m (land £6.5m and houses £25.0m). The Government operates a capital receipts pooling framework and of these amounts £5.7m was paid to Central Government (2013/14: £5.2m).

### H6. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Authority's HRA is £39.3m (2013/14: £38.9m). 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 42 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 2015 totalled £11.3m (2013/14: £10.3m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £21.8m at 31 March 2015 (2013/14: £18.9m).

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 £25.2m at 31 March 2015 (2013/14: £22.5m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| **£m** | | **£m** |
| 10.3 | Current tenants | 11.3 |
| 9.8 | Housing benefit overpayment | 11.3 |
| 9.1 | Other debt (services/leaseholders) | 10.5 |
| **29.2** | **Total arrears** | **33.1** |
| 22.5 | Provision for bad debts | 25.2 |

### H9. Supervision and Management

The Council has recognised that an element of the settlements being agreed in respect of claims under the Equal Pay Act 1970 relate to employees whose employment costs fell on the HRA. Therefore the HRA has been charged its share of the Council's overall Equal Pay liability based on the current estimate of claims. The charge to the HRA relates solely to claims in respect of activities correctly charged to the HRA, and amounts to a credit of £3.4m in 2014/15 (2013/14: £3.7m charge). These amounts also include £25.1m that has been set aside in a provision for future years payments. Statutory arrangements (Capital Regulation 30A) allow the change in provision to be reversed back to an Equal Pay Back Pay Account. The remaining balance on the Equal Pay Back Pay Account will be debited back to the HRA through the Movement in Reserves Statement in future financial years as payments are made.

## Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors.

| 2013/14 | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | | **£m** | **£m** | **£m** |
| | | | **Income** | | | |
| | | | **Council Tax Receivable:** | | | |
| (298.2) | | (298.2) | Collectable Council Tax | (313.6) | | (313.6) |
| (3.6) | | (3.6) | Transfer from General Fund: Council Tax Benefit | - | | - |
| **(301.8)** | | **(301.8)** | | **(313.6)** | | **(313.6)** |
| | | | **Business Rates Receivable:** | | | |
| | (414.0) | (414.0) | Collectable Business Rates | | (439.6) | (439.6) |
| | 0.4 | 0.4 | Transitional Payment Payable to Government | | 4.8 | 4.8 |
| | **(413.6)** | **(413.6)** | | | **(434.8)** | **(434.8)** |
| | (1.7) | (1.7) | Reconciliation Adjustments: | | (2.6) | (2.6) |
| | | | **Apportionment of Prior Year Deficit:** | | | |
| (3.0) | - | (3.0) | Birmingham City Council | (1.1) | (3.2) | (4.3) |
| | | - | Central Government | | (3.1) | (3.1) |
| (0.1) | - | (0.1) | West Midlands Fire & Rescue Authority | - | (0.1) | (0.1) |
| (0.3) | | (0.3) | West Midlands Police and Crime Commissioner | (0.1) | | (0.1) |
| **(3.4)** | - | **(3.4)** | | **(1.2)** | (6.4) | **(7.6)** |
| **(305.2)** | **(415.3)** | **(720.5)** | **TOTAL INCOME** | **(314.8)** | **(443.8)** | **(758.6)** |

| 2013/14 | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| **Council Tax** | **NNDR** | **Total** | | **Council Tax** | **NNDR** | **Total** |
| **£m** | **£m** | **£m** | Expenditure | **£m** | **£m** | **£m** |
| | | | **Precepts Demands & Shares:** | | | |
| 255.1 | 193.7 | 448.8 | Birmingham City Council | 261.7 | 199.6 | 461.3 |
| - | | - | New Frankley Parish Council | 0.1 | - | 0.1 |
| | 195.2 | 195.2 | Central Government | | 199.5 | 199.5 |
| 12.1 | 3.9 | 16.0 | Fire Authority | 12.4 | 4.0 | 16.4 |
| 23.5 | | 23.5 | West Midlands Police and Crime Commissioner | 24.1 | | 24.1 |
| | | | **Charges:** | | | |
| 0.7 | | 0.7 | Transfer to General Fund: Council Tax Benefit Overpayment | 0.7 | | 0.7 |
| 3.2 | 3.9 | 7.1 | Write Offs | 8.1 | 11.2 | 19.3 |
| 6.9 | 4.6 | 11.5 | (Increase)/Decrease in Bad Debt Provision | (0.2) | (1.9) | (2.1) |
| | 11.4 | 11.4 | (Increase)/Decrease in Provision for Appeals | | 29.6 | 29.6 |
| | 32.0 | 32.0 | (Increase)/Decrease in Provision for Back Dated Appeals | | | |
| | 1.9 | 1.9 | Cost of Collection | | 1.9 | 1.9 |
| | - | - | Payment to NNDR Pool | | | |
| **10.8** | **53.8** | **64.6** | | **8.6** | **40.8** | **49.4** |
| | **0.1** | **0.1** | **Reconciliation Adjustments:** | | **0.2** | **0.2** |
| **301.5** | **446.7** | **748.2** | **TOTAL EXPENDITURE** | **306.9** | **444.1** | **751.0** |
| **(3.7)** | **31.4** | **27.7** | **(Surplus)/Deficit for the year** | **(7.9)** | **0.3** | **(7.6)** |
| **6.8** | **-** | **6.8** | **(Surplus)/Deficit brought forward** | **3.2** | **31.4** | **34.6** |
| **3.2** | **31.4** | **34.6** | **(Surplus)/Deficit carried forward** | **(4.7)** | **31.7** | **27.0** |

## Notes to the Collection Fund
## C1. Contributions from Council Taxpayers

The Council's tax base at January 2014 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 147 | 5/9 | 82 |
| A | 76,358 | 6/9 | 50,905 |
| B | 81,726 | 7/9 | 63,565 |
| C | 56,148 | 8/9 | 49,909 |
| D | 30,137 | 1 | 30,137 |
| E | 17,382 | 11/9 | 21,245 |
| F | 7,748 | 13/9 | 11,192 |
| G | 5,284 | 15/9 | 8,807 |
| H | 736 | 18/9 | 1,472 |
| **Total** | **275,666** | | **237,314** |
| Less adjustment for collection rate | | | (6,882) |
| | | | **230,432** |

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 the property they live in is worth. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. This represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

| Band | Number of Properties | Ratio | Band D equivalent dwellings |
|---|---|---|---|
| AR | 3 | 5/9 | 2 |
| A | 659 | 6/9 | 439 |
| B | 943 | 7/9 | 733 |
| C | 84 | 8/9 | 75 |
| D | 52 | 1 | 52 |
| E | 1 | 11/9 | 1 |
| F | - | 13/9 | - |
| G | - | 15/9 | - |
| H | 1 | 18/9 | 2 |
| **Total** | | | **1,304** |
| Less adjustment for collection rate | | | (38) |
| | | | **1,266** |

**C2. Business Ratepayers**

The Council collects NNDR for its area which are based on local rateable values multiplied by a uniform rate which is set by the Government (47.1p for 2014/15: 46.2p for 2013/14). The total non-domestic rateable value at 31 March 2015 was £1,061.89m (31 March 2014: £1,070.27m). Under the NNDR Retention Scheme the amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 50% - Central Government
- 49% - Birmingham City Council
- 1% - The West Midlands Fire and Rescue Authority.

**C3. Precept Payments**

The preceptors on the Council Tax element of the Collection Fund are New Frankley in Birmingham Parish Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the NNDR element of the Collection Fund are Central Government, the West Midlands Fire and Rescue Authority and the Council.

# Statement of GROUP Accounts 2014/15

**Foreword to the Accounts**

## 1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council Group for the period from 1 April 2014 to 31 March 2015. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

1.2 In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies and Trusts means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture.

1.3 These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting policies are made as consolidation adjustments.

1.4 This foreword provides a summary of the Group's financial position and details of material items that have impacted on the accounts during the year.

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

1.6 The pages which follow contain the Group's Financial Statements for the year ended 31 March 2015, with comparative figures for the previous financial year.

## 2 Consolidation of Subsidiary and Associate Companies

2.1 The Council operates through a variety of undertakings, either exercising full control of an organisation (subsidiary undertakings) or in partnership with other organisations (associate undertakings). To provide a full picture of the activities of the Council, Group Accounts have been prepared which include those organisations where the interest is considered material to the Group as a whole. The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries

- Acivico Limited
- Birmingham Museums Trust
- Innovation Birmingham Limited
- National Exhibition Centre Limited Group (including NEC Finance Plc)
- National Exhibition Centre (Developments) Plc
- Performances (Birmingham) Limited

Associates
- Birmingham Airport Holdings Limited
- Service Birmingham Limited

2.2 Further detail regarding the Council's relationship with the above companies is given in notes G23 and G24.

2.3 The Council also maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Accounts. Where these entities fall within the Group boundary as subsidiaries, associates or jointly controlled entities they have been excluded from consolidation on the grounds of materiality. Otherwise they do not fall within the Group boundary due to the Council's limited control or influence.

**3 Changes in Group Structure**

3.1 On 16 January 2015, the Council announced that it had entered into a binding agreement to sell the National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The sale was completed on 1 May 2015.

3.2 The sale involved a number of transactions, the key ones being:

- Disposal of the Council's interests in NEC Ltd;
- The transfer of the on-going funding of the NEC defined benefit pension schemes to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council
- The termination and re-signing of existing lease arrangements.

3.3 The assets held in the Group's financial statements that are related to the disposal of NEC Ltd have been categorised as Assets Held for Sale. Additional information is included in the relevant Group notes and in the Council's financial statements for clarity.

3.4 In 2015/16, PETPS (Birmingham) Limited will be within the Group Boundary and, if material, consolidated into the Group Accounts.

3.5 The Council has set up InReach (Birmingham) Limited, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes at market rent at St Vincent Street, Ladywood. The company has not been consolidated into the Council's Group Accounts as the level of transactions within the company to date is not considered material to the whole. However, it is anticipated that the level of transactions will increase during the 2015/16 financial year such that the company would be consolidated into the Group Accounts at that time

3.6 The Council has entered into a partnership arrangement with BRITEL Funds Trustees Limited through Paradise Circus Limited Partnership to facilitate the development of the area known as Paradise Circus. The Council has a 50% share of the joint venture. As at 31 March 2015, the transactions of the partnership were not considered material to the Council's Group and were, therefore, not consolidated into the financial statements. However, it is anticipated that the level of transactions will increase during the 2015/16 financial year such that the level of equity will be material and will be accounted for in the Group Accounts at that time.

## 4 The Main Financial Statements

4.1 The following statements consolidate the accounts of the Council with those of its subsidiaries and associates. Transactions between the Council and its Group entities are eliminated on consolidation.

4.2 Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

4.3 The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices.

The 2014/15 GCIES shows a reduction of £412.6m in the net cost of services compared to 2013/14. The reduction relating to the Council as a single entity, prior to consolidation adjustments, was £287.5m, and is explained in the Foreword to the Council's Accounts and Note 5 Prior Period Adjustments.

4.4 Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2015 and the level of reserves, split into usable and unusable.

The net liability has increased to £1,339.7m. The principle difference to the Council's single entity net liability (£1,228.0m) results from the addition of consolidation adjusted net liabilities of £111.8m, consisting of £43.8m long-term assets, £42.7m net current liabilities and £112.9m long term liabilities.

4.5 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.

## 5 Prior Period Adjustments

5.1 Accounting standards have been adopted for the first time in respect of:

- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities

5.2 The major impact in respect of the above changes has been the consideration of accounting for local authority maintained schools, which the Council has previously consolidated into its entity accounts. Local authority maintained schools are considered to be entities where the balance of control lies with the Council and therefore the transactions in respect of the income and expenditure and the assets and liabilities of these schools falls within the Council boundary for consolidation purposes. The guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires that school transactions should be reported within the Council's entity financial statements rather than through consolidation in the Council's Group Accounts. This is consistent with the treatment of local authority maintained schools in the Council's accounts in previous years and there is, therefore, no change in the Council's accounting arrangements.

5.3 The Council has determined that, after reviewing the control arrangements for schools and the controls around the use of land and buildings, it benefits from the service potential of the land assets of Voluntary Controlled (VC), Voluntary Aided (VA) and Foundation schools. The Council has, therefore, determined that it should include the land assets of VC, VA and Foundation schools on its balance sheet, in addition to the buildings assets that it has previously included. Details are set out in the foreword to the Council's financial statements and in further detail in Note 5, Prior Period Adjustments and other relevant notes.

## 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. The detail for 2013/14 has been restated to reflect the adjustments in the entity accounts as set out in Note 5, Prior Period Adjustments.

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | 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 | **MI Reserves** | **Total Group Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | **£m** | £m | **£m** | | | |
| **Balance at 31 March 2013 (Restated)** | **26.9** | **259.3** | **2.4** | **-** | **46.4** | **52.0** | **128.9** | **515.9** | **(1,535.2)** | **(1,019.3)** | **537.3** | **-** | **(482.0)** |
| **Movement in Reserves during 2013/14 (Restated)** | | | | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | (347.3) | - | 33.2 | - | - | - | - | **(314.1)** | - | **(314.1)** | (131.7) | | **(445.8)** |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | - | **-** | 651.9 | **651.9** | (560.6) | | **91.3** |
| **Total Comprehensive Income and Expenditure** | **(347.3)** | **-** | **33.2** | **-** | **-** | **-** | **-** | **(314.1)** | **651.9** | **337.8** | **(692.3)** | **-** | **(354.5)** |
| Adjustments between Group accounts and Council accounts (Note G21) | (44.5) | - | - | - | - | - | - | **(44.5)** | - | **(44.5)** | 44.5 | | **-** |
| Change in Group Reserves accounted for through equity (Note G6) | - | - | - | - | - | - | - | **-** | - | **-** | - | | **-** |
| **Net Increase/(Decrease) before Transfers** | **(391.8)** | **-** | **33.2** | **-** | **-** | **-** | **-** | **(358.6)** | **651.9** | **293.3** | **(647.8)** | **-** | **(354.5)** |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | 539.7 | - | (31.2) | - | (18.9) | (7.4) | 13.5 | **495.7** | (495.7) | **-** | | | **-** |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **147.9** | **-** | **2.0** | **-** | **(18.9)** | **(7.4)** | **13.5** | **137.1** | **156.2** | **293.3** | **(647.8)** | **-** | **(354.5)** |
| Transfers to/(from) Earmarked Reserves (Note 8) | (89.0) | 89.0 | | | | | | **-** | | **-** | | | **-** |
| **Increase/Decrease in 2013/14** | **58.9** | **89.0** | **2.0** | **-** | **(18.9)** | **(7.4)** | **13.5** | **137.1** | **156.2** | **293.3** | **(647.8)** | **-** | **(354.5)** |
| **Balance at 31 March 2014** | **85.8** | **348.3** | **4.4** | **-** | **27.5** | **44.6** | **142.4** | **653.0** | **(1,379.0)** | **(726.0)** | **(110.5)** | **-** | **(836.5)** |
| **Movement in Reserves during 2014/15** | | | | | | | | | | | | | |
| Surplus/(Deficit) on the provision of services | (68.6) | - | 65.4 | - | - | - | - | **(3.2)** | - | **(3.2)** | (31.4) | | **(34.6)** |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | - | **-** | (430.9) | **(430.9)** | (37.7) | | **(468.6)** |
| **Total Comprehensive Income and Expenditure** | **(68.6)** | **-** | **65.4** | **-** | **-** | **-** | **-** | **(3.2)** | **(430.9)** | **(434.1)** | **(69.1)** | **-** | **(503.2)** |
| Adjustments between Group accounts and Council accounts (Note G21) | (67.8) | - | - | - | - | - | - | **(67.8)** | - | **(67.8)** | 67.8 | | **-** |
| Change in Group Reserves accounted for through equity (Note G6) | - | - | - | - | - | - | - | **-** | - | **-** | - | | **-** |
| **Net Increase/(Decrease) before Transfers** | **(136.4)** | **-** | **65.4** | **-** | **-** | **-** | **-** | **(71.0)** | **(430.9)** | **(501.9)** | **(1.3)** | **-** | **(503.2)** |
| Adjustments between accounting basis and funding basis under regulations (Note 7) | 187.6 | - | (65.3) | - | (11.2) | (28.8) | (38.3) | **44.0** | (44.0) | **-** | - | **-** | **-** |
| **Net Increase/(Decrease) before Transfers to Earmarked Reserves** | **51.2** | **-** | **0.1** | **-** | **(11.2)** | **(28.8)** | **(38.3)** | **(27.0)** | **(474.9)** | **(501.9)** | **(1.3)** | **-** | **(503.2)** |
| Transfers to/(from) Earmarked Reserves (Note 8) | 0.8 | (0.8) | | | | | | **-** | | **-** | | | **-** |
| **Increase/Decrease in 2014/15** | **52.0** | **(0.8)** | **0.1** | **-** | **(11.2)** | **(28.8)** | **(38.3)** | **(27.0)** | **(474.9)** | **(501.9)** | **(1.3)** | **-** | **(503.2)** |
| **Balance at 31 March 2015** | **137.8** | **347.5** | **4.5** | **-** | **16.3** | **15.8** | **104.1** | **626.0** | **(1,853.9)** | **(1,227.9)** | **(111.8)** | **-** | **(1,339.7)** |

## Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. The detail for 2013/14 has been restated to reflect the adjustments to the Council entity accounts set out in Note 5, Prior Period Adjustments.

| 2013/14 (Restated) Gross Expenditure | Gross Income | Net Expenditure | | Note | 2014/15 Gross Expenditure | Gross Income | Net Expenditure |
|---|---|---|---|---|---|---|---|
| £m | £m | £m | **Continuing Operations** | | £m | £m | £m |
| 24.1 | (20.5) | 3.6 | Central services to the public | | 20.1 | (13.5) | 6.6 |
| 382.9 | (169.3) | 213.6 | Cultural and Related Services | | 294.8 | (189.1) | 105.7 |
| 123.4 | (33.8) | 89.6 | Environmental and Regulatory Services | | 105.1 | (44.2) | 60.9 |
| 74.1 | (57.0) | 17.1 | Planning Services | | 68.3 | (62.1) | 6.2 |
| 1,381.3 | (952.5) | 428.8 | Children's and Education Services | | 1,178.7 | (900.1) | 278.6 |
| 173.3 | (40.9) | 132.4 | Highways and Transport Services | | 135.2 | (33.1) | 102.1 |
| 191.3 | (280.6) | (89.3) | Housing Revenue Account (Local Authority Housing) | | 182.8 | (289.1) | (106.3) |
| 667.2 | (571.7) | 95.5 | Housing General Fund | | 641.2 | (571.1) | 70.1 |
| 400.6 | (82.7) | 317.9 | Adult Social Care | | 374.2 | (96.7) | 277.5 |
| 71.3 | (79.6) | (8.3) | Public Health | | 73.4 | (81.9) | (8.5) |
| 46.5 | (6.2) | 40.3 | Corporate and Democratic Core | | (2.1) | (2.2) | (4.3) |
| (6.5) | - | (6.5) | Non Distributed Costs | | 46.4 | - | 46.4 |
| - | - | - | Trading Operations | | | | - |
| **3,529.5** | **(2,294.8)** | **1,234.7** | **Total Cost Of Services** | | **3,118.1** | **(2,283.1)** | **835.0** |
| 220.4 | - | 220.4 | Other Operating Expenditure | | 137.5 | - | 137.5 |
| 340.8 | (92.1) | 248.7 | Financing and Investment Income and Expenditure | G5 | 341.7 | (87.3) | 254.4 |
| 16.9 | (1,267.2) | (1,250.3) | Taxation and Non-Specific Grant Income | | 5.4 | (1,191.4) | (1,186.0) |
| | | **453.5** | **(Surplus) / Deficit on Provision of Services** | | | | **40.9** |
| | | (10.3) | Share of the (Surplus)/Deficit on the Provision of Services of Associates | | | | (8.4) |
| | | (0.1) | Tax Expense of Subsidiaries | | | | - |
| | | 2.7 | Tax Expense of Associates | | | | 2.1 |
| | | **445.8** | **Group (Surplus)/Deficit** | | | | **34.6** |
| | | | **Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | 260.8 | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | G7 | | | (116.1) |
| | | 91.7 | Impairment losses on non-current assets charged to the revaluation reserve | G7 | | | 124.2 |
| | | (465.6) | Remeasurement of the net defined benefit liability | G13 | | | 441.9 |
| | | - | Other (Gains)/Losses | | | | - |
| | | 22.2 | Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures | | | | 19.0 |
| | | **(90.9)** | | | | | **469.0** |
| | | | **Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services** | | | | |
| | | (0.4) | (Surplus) / deficit on revaluation of available for sale financial assets | | | | (0.4) |
| | | **(0.4)** | | | | | **(0.4)** |
| | | **(91.3)** | **Other Comprehensive (Income) / Expenditure** | | | | **468.6** |
| | | **354.5** | **Total Comprehensive (Income) / Expenditure** | | | | **503.2** |

Note G22 provides an analysis of minority interest shares of GCIES and provides a reconciliation of the CGIES to the movement in the Balance Sheet.

## Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The detail for 2012/13 and 2013/14 has been restated to reflect the adjustments in the Council entity accounts as detailed in Note 5, Prior Period Adjustments.

| 1 April 2013 (Restated) £m | 31 March 2014 (Restated) £m | | Note | 31 March 2015 £m |
|---|---|---|---|---|
| 5,702.2 | 4,998.8 | Property, Plant and Equipment | G7 | 4,801.7 |
| 245.4 | 245.8 | Heritage Assets | | 246.1 |
| - | - | Investment Property | G7 | 10.8 |
| 46.7 | 52.3 | Intangible Assets | | 28.4 |
| 2.8 | 4.3 | Long Term Investments | G9 | 6.4 |
| 60.2 | 66.9 | Long Term Debtors | | 67.9 |
| 66.3 | 51.7 | Investments in Associates and Joint Ventures | G23, G24 | 38.9 |
| **6,123.6** | **5,419.8** | **Total Long Term Assets** | | **5,200.2** |
| | | | | |
| 132.1 | 108.8 | Short Term Investments | G9 | 75.2 |
| 14.8 | 11.8 | Assets Held for Sale | G8 | 217.7 |
| 3.6 | 2.7 | Inventories | | 1.1 |
| 264.2 | 247.9 | Short Term Debtors | G10 | 301.7 |
| 75.9 | 50.3 | Cash and Cash Equivalents | G9 | 43.5 |
| **490.6** | **421.5** | **Total Current Assets** | | **639.2** |
| | | | | |
| (75.9) | (24.6) | Cash and Cash Equivalents | G9 | (22.5) |
| (466.2) | (569.8) | Short Term Borrowing | | (603.8) |
| (341.4) | (350.3) | Short Term Creditors | G11 | (338.9) |
| (145.4) | (191.5) | Provisions | | (332.4) |
| **(1,028.9)** | **(1,136.2)** | **Total Current Liabilities** | | **(1,297.6)** |
| | | | | |
| (73.0) | (73.2) | Long Term Creditors | G9 | (86.8) |
| (552.2) | (479.0) | Provisions | | (262.5) |
| (2,787.2) | (2,646.2) | Long Term Borrowing | | (2,668.0) |
| (437.9) | (513.6) | Other Long Term Liabilities | | (527.9) |
| (2,217.0) | (1,829.6) | Net liability on defined benefit pension scheme | G20 | (2,336.3) |
| **(6,067.3)** | **(5,541.6)** | **Total Long Term Liabilities** | | **(5,881.5)** |
| | | | | |
| **(482.0)** | **(836.5)** | **Net Assets** | | **(1,339.7)** |
| | | | | |
| 474.2 | 518.8 | Usable Reserves | G12 | 519.9 |
| (956.2) | (1,355.3) | Unusable Reserves | G13 | (1,859.6) |
| **(482.0)** | **(836.5)** | **Total Reserves** | | **(1,339.7)** |

**Group Cash Flow Statement**

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The detail for 2013/14 has been restated to reflect the adjustments in the Council entity accounts as set out in Note 5, Prior Period Adjustments.

| 2013/14 (Restated) £m | | Note | 2014/15 £m |
|---|---|---|---|
| (445.7) | Net Surplus/(Deficit) on the provision of services | | (34.6) |
| 758.0 | Adjustments to net Surplus/Deficit on the provision of services for non-cash movements | | 311.8 |
| (137.5) | Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities | | (122.9) |
| **174.8** | **Net cash flows from Operating Activities** | **G14** | **154.3** |
| (177.4) | Investing Activities | G15 | (251.1) |
| 28.3 | Financing Activities | G16 | 92.1 |
| **25.7** | **Net increase/(decrease) in cash and cash equivalents** | | **(4.7)** |
| - | Cash and cash equivalents at the beginning of the reporting period | | 25.7 |
| **25.7** | **Cash and cash equivalents at the end of the reporting period** | | **21.0** |

**Note G1**
**Accounting Policies**

The Group Financial Statements summarise the Council's and Group's transactions for the 2014/15 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries or associates with details included in respect of the classification within Notes G23 and G24. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates consolidated under the equity method.

Investments in associates are carried at cost rather than fair value.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council's entity accounts. Where there are not material differences, the Notes to the Council 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 financial statements of the National Exhibition Centre Limited (NEC Ltd) have been prepared under EU IFRS however all other subsidiaries and associates have been prepared under UK GAAP. Adjustments have been made to the financial statements accounted for under UK GAAP to align these with IFRS under The Code.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity financial statements, with additional policies specific to the Group set out below.

**Derivative Financial Instruments and Hedging Activities**

The Group uses foreign currency forward contracts to mitigate the adverse currency exchange risk on trade receivables. These contracts are treated as a trading instrument with fair value movements on the derivative being recognised immediately through the income statement. At 31 March 2015 NEC Ltd had entered into forward contracts totalling €3.65m all of which mature within 24 months (2013/14: €2.15m).

**Defined Contribution Pension Schemes**

The NEC Limited Group funds two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operates two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matches member contributions to an agreed maximum. Further information may be found in Note G20.

**Defined Benefit Pension Scheme**

Acivico Limited participates in the Local Government Pension Scheme (LGPS). The scheme is a defined benefit scheme based upon final pensionable salary. Further information may be found within the Council's entity accounting policies and Note G20.

**Note G2**
**Critical Judgements in Applying Accounting Policies**

*National Exhibition Centre*

On 16 January 2015, the Council announced that it had entered into a binding agreement for the disposal of The National Exhibition Centre Ltd (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The Council has considered the criteria within IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, and has determined that the tests for recognition of the assets and liabilities within the Balance Sheet as a disposal group in Assets Held for Sale were met at the 2014/15 Balance Sheet Date. The Council has, therefore, recognised those NEC assets and liabilities subject to the disposal as Assets Held for Sale at the year end, which has entailed a transfer from their previous Balance Sheet categories.

The disposal of the NEC was finalised on 1 May 2015.

Other critical judgements relating to the Council in applying Accounting Policies are provided in Note 3 to the Council entity accounts.

There are no additional material judgements to report in respect of the remaining Group Entities.

**Note G3**
**Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

Assumptions made about future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity accounts.

There are no additional material assumptions to report in respect of the remaining Group Entities.

**Note G4**
**Events After the Reporting Period**

*NEC Group*

On 16 January 2015, the Council announced that it had entered into a binding agreement to sell The National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. As part of the disposal agreement, the NEC defined benefit pension scheme transferred to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council. The disposal of NEC Ltd was finalised on 1 May 2015.

Details of other events after the Reporting Period that relate to the Council are provided in Note 6 to the Council entity accounts.

There are no additional material events after the reporting period to report in respect of the remaining Group Entities.

**Note G5**

**Financing and Investment Income and Expenditure**

Financing and Investment Income and Expenditure disclosed in the Group Comprehensive Income and Expenditure Statement comprises the following. The detail has been restated for 2013/14 to reflect the revised analysis of Trading Account activity in the Council entity accounts as set out in Note 5, Prior Period Adjustments.

| 2013/14 | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £m | Income £m | Net £m | | Gross Expenditure £m | Income £m | Net £m |
| 188.1 | - | 188.1 | Interest Payable and Similar charges | 201.5 | - | 201.5 |
| 89.6 | (0.3) | 89.3 | Net interest on the net defined benefit liability | 75.9 | (0.6) | 75.3 |
| - | (14.9) | (14.9) | Interest Receivable and similar income | - | (16.4) | (16.4) |
| 63.1 | (56.4) | 6.7 | (Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement | 64.3 | (64.2) | 0.1 |
| - | (20.5) | (20.5) | Other investment income and expenditure | - | (6.1) | (6.1) |
| **340.8** | **(92.1)** | **248.7** | **Total** | **341.7** | **(87.3)** | **254.4** |

**Note G6**
**Changes in Group Ownership Processed in Equity**

Changes in Group ownership which do not result in a change in control are processed in equity, in line with The Code.

There were no such changes during 2013/14 or 2014/15.

## Note G7

## Property, Plant and Equipment

The detail for 2013/14 has been restated to reflect the changes in the Council entity accounts as detailed in Note 5, Prior Period Adjustments.

Movements on Balances:2014/15

| | Council dwellings £m | Other land and buildings £m | Vehicles, plant, furniture & equipment £m | Infrastructure assets £m | Community assets £m | Investment Properties £m | Assets under construction £m | Total Property, Plant and Equipment £m | PFI / Service Concession assets Included in Property, Plant and Equipment £m |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2014** | **1,769.8** | **2,689.2** | **280.3** | **540.1** | **89.5** | **-** | **189.7** | **5,558.6** | ***507.1*** |
| Additions | 135.1 | 74.9 | 23.8 | 56.8 | 1.5 | | 98.8 | **390.9** | *52.6* |
| Donations | | | | | | | | **-** | |
| Assets reclassified between categories | | 13.2 | 0.3 | 10.7 | 0.2 | | (24.3) | **0.1** | |
| Assets reclassified (to)/from Held for Sale | | (220.1) | | | | | | **(220.1)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | | 55.6 | (6.8) | | | | | **48.8** | *(7.1)* |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (73.3) | (120.4) | (10.1) | | | | (4.4) | **(208.2)** | *(4.4)* |
| Derecognition - Disposals | (17.7) | (128.4) | (68.3) | | | | | **(214.4)** | *(0.3)* |
| Derecognition - other | (3.1) | | | (131.3) | (0.5) | | | **(134.9)** | |
| Other movements in depreciation and impairment | | (10.8) | - | - | | 10.8 | - | **-** | |
| **At 31 March 2015** | **1,810.8** | **2,353.2** | **219.2** | **476.3** | **90.7** | **10.8** | **259.8** | **5,220.8** | ***547.9*** |
| | | | | | | | | **-** | |
| **Accumulated Depreciation and Impairment** | | | | | | | | **-** | |
| **At 1 April 2014** | **(109.7)** | **(157.7)** | **(145.4)** | **(147.0)** | **-** | **-** | **-** | **(559.8)** | ***(42.2)*** |
| Depreciation charge | (39.3) | (50.3) | (25.5) | (30.9) | | | | **(146.0)** | *(19.6)* |
| Depreciation written out to the Revaluation Reserve | 38.9 | 18.6 | | | | | | **57.5** | *2.8* |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | | | 5.3 | | | | | **5.3** | |
| Impairment (losses)/reversals recognised in the Revaluation Reserve | (108.6) | (18.2) | 10.6 | | | | | **(116.2)** | *15.2* |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | 73.4 | 61.9 | | | | | | **135.3** | *1.9* |
| Derecognition - Disposals | | 16.9 | 66.7 | 131.4 | | | | **215.0** | |
| Derecognition - of components | | 0.6 | | | | | | **0.6** | |
| Other movements in depreciation and impairment | | | | | | | | **-** | |
| **At 31 March 2015** | **(145.3)** | **(128.2)** | **(88.3)** | **(46.5)** | **-** | **-** | **-** | **(408.3)** | ***(41.9)*** |
| | | | | | | | | **-** | |
| **Net Book Value** | | | | | | | | **-** | |
| **At 31 March 2015** | **1,665.5** | **2,225.0** | **130.9** | **429.8** | **90.7** | **10.8** | **259.8** | **4,812.5** | ***506.0*** |
| **At 1 April 2014** | **1,660.1** | **2,531.5** | **134.9** | **393.1** | **89.5** | **-** | **189.7** | **4,998.8** | ***464.9*** |

## Movements on Balances:2013/14 (Restated)

| | Council dwellings | Other land and buildings | Vehicles, plant, furniture & equipment | Infrastructure assets | Community assets | Investment Properties | Assets under construction | Total Property, Plant and Equipment | PFI / Service Concession assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Cost or Valuation** | | | | | | | | | |
| **At 1 April 2013** | **1,666.9** | **3,247.4** | **212.2** | **624.6** | **87.6** | **-** | **348.0** | **6,186.7** | ***724.3*** |
| Adjustment to Opening Balance | | 149.7 | 39.5 | | | | | **189.2** | *(296.8)* |
| **Restated Balance at 1 April 2013** | **1,666.9** | **3,397.1** | **251.7** | **624.6** | **87.6** | **-** | **348.0** | **6,375.9** | ***427.5*** |
| Additions | 88.7 | 90.4 | 26.7 | 76.4 | 1.9 | | 35.0 | **319.1** | *108.2* |
| Donations | | | | | | | | **-** | |
| Assets reclassified between categories | | 169.0 | 4.0 | 5.2 | 0.1 | | (178.3) | **-** | |
| Assets reclassified (to)/from Held for Sale | | (1.6) | | | | | | **(1.6)** | |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve | | (464.8) | | | | | | **(464.8)** | *2.5* |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | 36.9 | (331.4) | | | | | (15.0) | **(309.5)** | *(9.1)* |
| Derecognition - Disposals | (20.3) | (169.5) | (2.1) | | (0.1) | | | **(192.0)** | *(22.0)* |
| Derecognition - other | (2.4) | | | (166.1) | | | | **(168.5)** | |
| Other movements in depreciation and impairment | | | | | | | | **-** | |
| **At 31 March 2014** | **1,769.8** | **2,689.2** | **280.3** | **540.1** | **89.5** | **-** | **189.7** | **5,558.6** | ***507.1*** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **At 1 April 2013** | **(78.7)** | **(235.4)** | **(91.6)** | **(251.7)** | **-** | **-** | **-** | **(657.4)** | ***(61.8)*** |
| Adjustment to Opening Balance | | | (16.3) | | | | | **(16.3)** | *33.5* |
| **Restated Balance at 1 April 2013** | **(78.7)** | **(235.4)** | **(107.9)** | **(251.7)** | **-** | **-** | **-** | **(673.7)** | ***(28.3)*** |
| Depreciation charge | (38.9) | (76.2) | (38.7) | (44.2) | | | | **(198.0)** | *(16.2)* |
| Depreciation written out to the Revaluation Reserve | 36.9 | 86.4 | | | | | | **123.3** | *0.4* |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | | 31.0 | | | | | | **31.0** | |
| Impairment (losses)/reversals recognised in the Revaluation Reserve | 7.9 | (21.0) | | | | | | **(13.1)** | |
| Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services | (36.9) | 41.6 | | | | | | **4.7** | |
| Derecognition - Disposals | | 15.5 | 1.2 | 148.9 | | | | **165.6** | *1.9* |
| Derecognition - of components | | 0.4 | | | | | | **0.4** | |
| Other movements in depreciation and impairment | | | | | | | | **-** | |
| **At 31 March 2014** | **(109.7)** | **(157.7)** | **(145.4)** | **(147.0)** | **-** | **-** | **-** | **(559.8)** | ***(42.2)*** |
| **Net Book Value** | | | | | | | | | |
| **At 31 March 2014** | **1,660.1** | **2,531.5** | **134.9** | **393.1** | **89.5** | **-** | **189.7** | **4,998.8** | ***464.9*** |
| **At 1 April 2013 (Restated)** | **1,588.2** | **3,161.7** | **143.8** | **372.9** | **87.6** | **-** | **348.0** | **5,702.2** | ***399.2*** |

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 21 to the Council entity accounts. Buildings assets held by other entities within the group have been valued at their fair value as at 1 April 2009, with the exception of those related to Innovation Birmingham Group Limited (31 March 2014) and to NEC Limited and NEC (Developments) Plc (31 March 2015).

**Note G8**
**Assets Held for Sale**

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

| | Current | |
|---|---|---|
| | 2013/14 | 2014/15 |
| | £m | £m |
| **Balance outstanding at start of year** | **14.8** | **11.8** |
| Assets newly classified as held for sale: | | |
| - Property, plant and equipment | 2.7 | 224.7 |
| - Intangible assets | - | 2.7 |
| - Other assets/(liabilities) in disposal groups | - | (9.9) |
| Revaluation losses | - | - |
| Revaluation gains | 1.7 | 1.4 |
| Impairments (losses)/reversals | 0.2 | (1.1) |
| Assets declassified as held for sale: | | |
| - Property, plant and equipment | (1.4) | (5.2) |
| Assets sold | (6.2) | (6.5) |
| Other Movements | - | (0.2) |
| **Balance outstanding at year end** | **11.8** | **217.7** |

Included within Assets Held for Sale are those assets of the National Exhibition Centre which the Council disposed of on 1 May 2015. The assets held by the Group at 31 March 2015, fair value of £213.2m, which formed part of the NEC disposal agreement were a combination of land and buildings and other assets and liabilities.

Details of the other Assets Held for Sale are set out in Note 27 to the Council entity accounts.

**Note G9**
**Financial Instruments**

Investments
The following long term investments are removed in the Group Financial Statements compared to the Council entity accounts as they relate to the Council's investment in NEC Finance plc, a subsidiary of NEC Ltd, and so have been eliminated upon group consolidation. In 2014/15, the investment has been transferred in the Council entity accounts to Short Term Investments in recognition of the pending disposal of the NEC and the elimination of the intra-group balance is now reflected in Short Term Investments.

| | Long-term | |
|---|---|---|
| | 31 March 2014 | 31 March 2015 |
| | £m | £m |
| **Investments** | | |
| Loans and receivables | 227.0 | - |

The following short term investments are brought into the Group Financial Statements upon group consolidation:

| | Short-term | |
|---|---|---|
| | 31 March 2014 | 31 March 2015 |
| | £m | £m |
| **Investments** | | |
| Loans and receivables | 25.8 | 1.5 |

Debtors and cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G10.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G11.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) plc on the London Stock Exchange. The following long term creditors are brought into the Group Financial Statements upon group consolidation.

| | Long-term | |
|---|---|---|
| | 31 March 2014 | 31 March 2015 |
| | £m | £m |
| **Creditors** | | |
| Financial liabilities at amortised cost | (73.2) | (73.2) |

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

**Note G10**
**Short Term Debtors**

The table below shows amounts owed to the Council and its Group at the end of the year that are due within 12 months. These balances have been split by type of organisation.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| 39.5 | Central government bodies | 62.4 |
| 8.3 | Other local authorities | 12.2 |
| 1.4 | NHS bodies | 9.7 |
| 11.0 | Public corporations and trading funds | 0.1 |
| 187.7 | Other entities and individuals | 217.3 |
| **247.9** | **Total** | **301.7** |

**Note G11**
**Short Term Creditors**

The table below shows amounts owed by the Council and its Group at the end of the year that are due within 12 months, split by type of organisation.

| 31 March 2014 | | 31 March 2015 |
|---|---|---|
| £m | | £m |
| (23.6) | Central government bodies | (30.3) |
| (6.3) | Other local authorities | (5.7) |
| (10.6) | NHS bodies | (5.9) |
| (26.3) | Public corporations and trading funds | (33.6) |
| (283.5) | Other entities and individuals | (263.4) |
| **(350.3)** | **Total** | **(338.9)** |

**Note G12**
**Usable Reserves**

The detail for the year ended 31 March 2014 has been restated to reflect the adjustments to the Council entity accounts as set out in Note 5, Prior Period Adjustments.

| 31 March 2014 (Restated) £m | | 31 March 2015 £m |
|---|---|---|
| 212.8 | General Fund | 332.5 |
| 27.5 | Capital Receipts Reserve | 16.3 |
| 348.3 | Earmarked General Fund Reserves | 347.5 |
| 4.4 | Housing Revenue Account (HRA) | 4.5 |
| - | Earmarked HRA Reserves | - |
| 44.6 | Major Repairs Reserve | 15.8 |
| 142.4 | Capital Grants Unapplied | 104.1 |
| (247.0) | Profit and Loss Reserve | (279.0) |
| (7.7) | Designated Funds | (8.7) |
| (11.3) | Other Charitable Funds | (17.9) |
| 4.8 | Merger Reserve | 4.8 |
| **518.8** | **Total** | **519.9** |

Further analysis is provided below for material usable reserves.

Movements in the General Fund are set out in the Council and Group Movement in Reserves Statements, further supported by Note 7 to the Council's entity accounts. Differences arising on group consolidation are set out in Note G21 to the Group Accounts.

Profit and Loss Reserve

The Profit and Loss Reserve consolidates in the in-year results for subsidiaries. In the Group Financial Statements it is kept separate from the General Fund given the specific statutory restrictions that apply to the General Fund. Depreciation charges in subsidiaries remain as charges to the Profit and Loss Reserve.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **(117.4)** | **Balance at 1 April** | **(247.0)** |
| (129.6) | In year profit and loss result for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions | (32.0) |
| **(247.0)** | **Balance at 31 March** | **(279.0)** |

**Note G13**
**Unusable Reserves**

The following table shows the value of Group reserve balances that have come about as a result of accounting adjustments and are not therefore available to spend. The detail for the year ended 31 March 2014 has been restated to reflect the adjustments in the Council entity accounts as set out in Note 5, Prior Period Adjustments.

| 31 March 2014 (Restated) £m | | 31 March 2015 £m |
|---|---|---|
| 852.0 | Revaluation Reserve | 787.2 |
| 295.6 | Capital Adjustment Account | 271.4 |
| (31.3) | Financial Instrument Adjustment Account | (29.7) |
| 40.4 | Deferred Capital Receipts | 50.1 |
| (1,848.4) | Pensions Reserve | (2,356.1) |
| (19.8) | Collection Fund Adjustment Account | (13.8) |
| (636.7) | Equal Pay Back Pay Account | (561.3) |
| (20.8) | Accumulated Absences Account | (21.6) |
| 0.4 | Available for Sale Financial Instruments Reserve | 0.8 |
| 0.6 | Called up Share Capital | 0.7 |
| 4.5 | Restricted Funds | 4.5 |
| 8.2 | Share Premium Account | 8.2 |
| **(1,355.3)** | **Total** | **(1,859.6)** |

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

<u>Revaluation Reserve</u>

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

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

For amounts arising in the Council, 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.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **1,262.9** | **Balance at 1 April** | **852.0** |
| | **Revaluations not posted to Surplus/Defict on the Provision of Services** | |
| 316.7 | Council: Upward revaluation of assets | 217.7 |
| (31.3) | Council: Downward revaluation of assets | (101.6) |
| (91.7) | Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services | (124.2) |
| **193.7** | **Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services** | **(8.1)** |
| | **Amounts written off to the Capital Adjustment Account** | |
| (10.5) | Council: Difference between fair value depreciation and historical cost depreciation | (9.4) |
| (31.1) | Council: Accumulated gains on assets sold or scrapped | (25.7) |
| - | Council: Adjustment for transfer of land to Investment Property | (10.8) |
| **(41.6)** | **Council: Amount written off to the Capital Adjustment Account** | **(45.9)** |
| | **Group Movements** | |
| - | Increase in Group's share of revaluation reserve resulting from increased stake in entity | - |
| (563.0) | Other movements in reserve in Group entities | (10.8) |
| **(563.0)** | **Total Group Movements** | **(10.8)** |
| **852.0** | **Balance at 31 March** | **787.2** |

Pensions Reserve

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

The Group balance also consolidates actuarial gains and losses arising on schemes held by NEC Ltd and Acivico Limited. Further information is provided in Note G20.

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| **(2,235.3)** | **Balance at 1 April** | **(1,848.4)** |
| - | Pension Surplus/(Deficit) of Subsidiaries transferred to Group on initial consolidation | |
| 465.6 | Remeasurement of the net Defined Benefit Liability | (441.9) |
| (162.0) | Reversal of items relating to retirement benefits debited/credited to the Surplus/(Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement | (169.5) |
| 83.3 | Employer's pensions contributions and direct payments to retirees payable in the year | 103.7 |
| **(1,848.4)** | **Balance at 31 March** | **(2,356.1)** |

**Note G14**
**Cash Flow Statement - Operating Activities**

The cash flows from operating activities include the following items:

| 2013/14 £m | | 2014/15 £m |
|---|---|---|
| (14.9) | Interest Received | (16.4) |
| 188.1 | Interest Paid | 201.5 |
| (20.5) | Dividends Received | (6.2) |

**Note G15**
**Cash Flow Statement - Investing Activities**

The cash flow investing balances have been restated for 2013/14 to reflect the adjustments in the Council entity accounts, detailed in Note 5, Prior Period Adjustments. The cash flows from investing activities include the following items:

| 2013/14 (Restated) £m | | 2014/15 £m |
|---|---|---|
| (242.7) | Purchase of property, plant and equipment, investment property and intangible assets | (345.6) |
| (3,545.7) | Purchase of short-term and long-term investments | (3,191.8) |
| (1.2) | Other payments for investing activities | |
| 44.0 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 57.9 |
| 3,567.9 | Proceeds from short-term and long-term investments | 3,228.1 |
| 0.3 | Other receipts from investing activities | 0.3 |
| - | Net cash acquired with subsidiary | |
| **(177.4)** | **Net cash flows from investing activities** | **(251.1)** |

## Note G16
## Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following items:

| 2013/14 | | 2014/15 |
|---|---|---|
| £m | | £m |
| 93.6 | Other receipts from financing activities | 68.7 |
| 723.3 | Cash receipts of short-term and long-term borrowing | 2,069.8 |
| (25.0) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | (28.5) |
| (763.6) | Repayments of short-term and long-term borrowing | (2,014.3) |
| - | Other payments for financing activities | (3.6) |
| **28.3** | **Net cash flows from financing activities** | **92.1** |

## Note G17
## Amounts Reported for Resource Allocation Decisions (Segmental Analysis)

Details of the Authority's Segmental Analysis are provided in Note 20 to the Council entity accounts.

Net expenditure reported to the Cabinet and Directorates detailed within Note 20 to the Council entity accounts is unchanged by the consolidation of the group entities and has therefore been excluded. The Segmental Analysis reconciliation to both the Cost of Services in the Comprehensive Income and Expenditure Statement and the Council's Subjective Analysis are as follows:

Reconciliation of Directorate Net Expenditure to Cost of Services in the Group Comprehensive Income and Expenditure Statement

| | 2013/14 (Restated) | 2014/15 |
|---|---|---|
| | £m | £m |
| Net expenditure | 1,092.8 | 1,021.3 |
| Amounts in the Group Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis | 284.5 | 75.5 |
| Amounts in the Group Comprehensive Income and Expenditure Statement related to Group Accounts Consolidation not reported to Cabinet in the Analysis | 77.8 | (46.3) |
| Amounts included in the Analysis not included in the Group Comprehensive Income and Expenditure Statement | (220.4) | (215.5) |
| **Cost of Services in Group Comprehensive Income and Expenditure Statement** | **1,234.7** | **835.0** |

## Reconciliation to Subjective Analysis

**2014/15**

| | **Directorate Analysis** | Amounts not included in Analysis but within CIES | Amounts included in Analysis but not included in CIES | Allocation of Support Service Recharges | **Cost of Services in CIES** | Amounts reported below the Net Expenditure of Continuing Operations in the CIES | **Total** |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Fees, charges and other service income | (356.4) | 60.4 | (242.6) | | (538.6) | (64.2) | (602.8) |
| Support service recharges | (423.9) | | | 423.9 | - | | - |
| Collection Fund Surplus | | | | | - | (7.0) | (7.0) |
| Group consolidation subsidiary adjustments | | (156.0) | | | (156.0) | (0.8) | (156.8) |
| Suplus on associates and joint ventures | | | | | - | (6.3) | (6.3) |
| Interest and investment income | (9.6) | | 9.6 | | - | (22.3) | (22.3) |
| Income from Council Tax | | | | | - | (261.8) | (261.8) |
| Government grants and contributions | (1,705.0) | | 116.5 | | (1,588.5) | (922.6) | (2,511.1) |
| **Total income** | **(2,494.9)** | **(95.6)** | **(116.5)** | **423.9** | **(2,283.1)** | **(1,285.0)** | **(3,568.1)** |
| | | | | | | | |
| Employee expenses | 1,074.2 | 0.6 | | | 1,074.8 | | 1,074.8 |
| Other service expenses | 1,966.5 | (62.7) | (99.0) | | 1,804.8 | 68.0 | 1,872.8 |
| Support service recharges | 311.3 | 1.8 | | (423.9) | (110.8) | | (110.8) |
| Collection Fund Deficit | | | | | - | 5.4 | 5.4 |
| Group consolidation subsidiary adjustments | | 109.7 | | | 109.7 | 17.0 | 126.7 |
| Deficit on associates and joint ventures | | | | | - | | - |
| Depreciation, amortisation and impairment | 164.2 | 75.4 | | | 239.6 | | 239.6 |
| Interest payments and pensions costs | | | | | - | 260.5 | 260.5 |
| Precepts and levies | | | | | - | 54.9 | 54.9 |
| Payments to Housing Capital Receipts pool | | | | | - | 5.7 | 5.7 |
| (Gain)/Loss on disposal of non-current assets | | | | | - | 73.1 | 73.1 |
| **Total expenditure** | **3,516.2** | **124.8** | **(99.0)** | **(423.9)** | **3,118.1** | **484.6** | **3,602.7** |
| | | | | | | | |
| **Group (Surplus)/deficit** | **1,021.3** | **29.2** | **(215.5)** | **-** | **835.0** | **(800.4)** | **34.6** |

**2013/14 (Restated)**

| | **Directorate Analysis** | Amounts not included in Analysis but within CIES | Amounts included in Analysis but not included in CIES | Allocation of Support Service Recharges | **Cost of Services in CIES** | Amounts reported below the Net Expenditure of Continuing Operations in the CIES | **Total** |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Fees, charges and other service income | (594.9) | 45.9 | (137.9) | | (686.9) | (56.4) | (743.3) |
| Support service recharges | (325.0) | | 1.1 | 311.1 | (12.8) | | (12.8) |
| Group consolidation subsidiary adjustments | | (119.4) | | | (119.4) | (0.5) | (119.9) |
| Suplus on associates and joint ventures | | | | | - | (7.6) | (7.6) |
| Interest and investment income | (6.8) | | 6.8 | | - | (35.3) | (35.3) |
| Income from Council Tax | | | | | - | (255.1) | (255.1) |
| Government grants and contributions | (1,544.1) | | 68.4 | | (1,475.7) | (1,012.1) | (2,487.8) |
| **Total income** | **(2,470.8)** | **(73.5)** | **(61.6)** | **311.1** | **(2,294.8)** | **(1,367.0)** | **(3,661.8)** |
| | | | | | | | |
| Employee expenses | 1,109.4 | 81.8 | | | 1,191.2 | | 1,191.2 |
| Other service expenses | 2,089.2 | (76.0) | (101.5) | | 1,911.7 | 63.1 | 1,974.8 |
| Support service recharges | 227.9 | | | (311.1) | (83.2) | | (83.2) |
| Collection Fund Deficit | | | | | - | 16.9 | 16.9 |
| Group consolidation subsidiary adjustments | | 197.2 | | | 197.2 | 17.6 | 214.8 |
| Deficit on associates and joint ventures | | | | | - | | - |
| Depreciation, amortisation and impairment | 137.1 | 232.8 | | | 369.9 | | 369.9 |
| Interest payments and pensions costs | | | | | - | 260.1 | 260.1 |
| Precepts and levies | | | (57.3) | | (57.3) | 57.4 | 0.1 |
| Payments to Housing Capital Receipts pool | | | | | - | 5.2 | 5.2 |
| (Gain)/Loss on disposal of non-current assets | | | | | - | 157.8 | 157.8 |
| **Total expenditure** | **3,563.6** | **435.8** | **(158.8)** | **(311.1)** | **3,529.5** | **578.1** | **4,107.6** |
| | | | | | | | |
| **Group (Surplus)/deficit** | **1,092.8** | **362.3** | **(220.4)** | **-** | **1,234.7** | **(788.9)** | **445.8** |

**Note G18**
**Related Parties**

Details of the Council's material transactions with related parties are provided in Note 48 to the Council's entity accounts.

In addition to the related parties detailed within Note 48 to the Council entity accounts those included below are deemed to be related parties of the Group – bodies or individuals with the potential to control or significantly influence the Group entities or to be controlled or significantly influenced by the Group entities. Where in year transactions and outstanding balances between Group entities and associated related parties are £1m or greater, they are disclosed below. The Group entities and their relationships with the Council are detailed in Notes G23 and G24.

| | Purchased From | Sold To | Net amount Due (To)/From |
|---|---|---|---|
| | £m | £m | £m |
| **National Exhibition Centre Limited** | | | |
| National Exhibition Centre (Ireland) Limited | | | 2.4 |
| NEC Finance Plc | | | |
| NEC Pension Trustee Company Limited | | | |
| NEC Property (Number One) Limited | | | |
| MPM Catering Limited | | | |
| Sports Show Limited | | | |
| **Performances Birmingham Limited** | | | |
| Performance Birmingham (Enterprises) Limited | | | |
| **Innovation Birmingham Limited** | | | |
| Birmingham Science Park Aston Limited | | | |
| Birmingham Technology (Property) Limited | | | |
| Birmingham Technology (Property One) Limited | | | |
| Birmingham Technology Venture Capital Limited | | | |
| **Birmingham Museums Trust** | | | |
| Thinktank Trust | | | |
| Birmingham Museums Trading Limited | | | |
| **Acivico Ltd** | | | |
| Acivico Design Construction and Facilities Management Limited | | | |
| Acivico (Building Consultancy) Limited | | | |
| **Birmingham Airport Holdings Limited** | | | |
| West Midlands District Councils via (Solihull MBC) | | | (4.7) |
| Solihull MBC | Solihull MBC is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate. | | |

**Note G19**
**Leases**

**Group as the lessee**

***Finance leases***

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

***Operating leases***

Details of the Council's operating leases are provided in Note 42 to the Council entity accounts.

**Group as the lessor**

***Finance leases***

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

Birmingham City Council is the lessor for premises leased to Innovation Birmingham Group Limited (IBL). As a group subsidiary entity, these leases are eliminated from the group accounts. The information in the section below provides details of the material leases with group entities, which are to be excluded from the disclosures provided in Note 42 to the Council entity accounts in deriving the group disclosures.

| 31 March 2014 £m | | 31 March 2015 £m |
|---|---|---|
| | Finance lease debtor (net present value of minimum lease payments) | |
| - | - Current | - |
| 7.7 | - Non current | 7.7 |
| 14.1 | Unearned finance income | 14.0 |
| (0.1) | Unguaranteed residual value of property | (0.1) |
| **21.7** | **Gross investment in the lease** | **21.6** |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| | Gross investment in the lease | | Minimum lease payments | |
|---|---|---|---|---|
| | 31 March 2014 £m | 31 March 2015 £m | 31 March 2014 £m | 31 March 2015 £m |
| Not later than one year | - | - | 0.2 | 0.2 |
| Later than one year and not later than five years | 0.1 | 0.1 | 0.7 | 0.7 |
| Later than five years | 7.6 | 7.6 | 20.8 | 20.7 |
| **Total** | **7.7** | **7.7** | **21.7** | **21.6** |

**Note G20**
**Defined Benefit Pension Schemes**

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 11 and 12 to the Council entity accounts.

NEC Limited Group
In the Group Accounts, the NEC Limited Group funds two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010. Costs are charged against the profit and loss so as to spread the cost of pensions over the employees' working lives. In addition, during the year the NEC provided two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute and a group personal pension plan where the company contributes to an agreed maximum. The employee benefit expense is recognised as it falls due. The NEC introduced auto enrolment during the financial year.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Following completion of the sale of NEC Limited on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation.

Balance Sheet

The following amounts have been recognised in the NEC's balance sheet and so consolidated into the Group balance sheet.

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Present value of funded obligations | (152.8) | (177.8) |
| Fair value of plan assets | 128.2 | 140.0 |
| Deficit for funded plans | (24.6) | (37.8) |
| Present value of wholly unfunded obligations | (0.3) | (0.4) |
| **Retirement Benefit Obligation** | **(24.9)** | **(38.2)** |

Income Statement

The amounts recognised in the NEC Limited Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Operating Cost: | | |
| Administration Expenses | 30.0 | 13.0 |
| Financing Costs: | | |
| Interest cost on pension scheme liabilities | 6,494.0 | 6,488.0 |
| Interest income on plan assets | (5,406.0) | (5,459.0) |
| Net interest cost | 1,088.0 | 1,029.0 |
| **Total income statement expense** | **1,118.0** | **1,042.0** |

Other Comprehensive Income

The amounts recognised in the NEC Group Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Return on plan assets in excess of interest income | 0.8 | 8.9 |
| Actuarial loss on liabilities due to changes in financial assumptions | (1.3) | (24.9) |
| Actuarial gain on liabilities due to changes in demographic assumptions | 2.2 | 0.5 |
| Actuarial loss on liabilities due to experience | (1.9) | 1.3 |
| **Remeasurement loss recognised during the period** | **(0.2)** | **(14.2)** |

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Present value of obligations at 1 April | (149.5) | (153.2) |
| Interest cost | (6.5) | (6.4) |
| Actuarial loss on liabilities due to changes in financial assumptions | (1.3) | (24.9) |
| Actuarial gain on liabilities due to changes in demographic assumptions | 2.2 | 0.5 |
| Actuarial loss on liabilities due to experience | (1.9) | 1.3 |
| Benefits paid | 3.8 | 4.5 |
| **Present value of obligation at 31 March** | **(153.2)** | **(178.2)** |

Movements in the fair value of plan assets are as follows:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Fair value of plan assets at 1 April | 123.8 | 128.2 |
| Interest income on plan assets | 5.4 | 5.4 |
| Return on plan assets in excess on interest income | 0.8 | 8.9 |
| Employer contributions | 2.0 | 2.0 |
| Administration expenses paid | - | - |
| Benefits paid | (3.8) | (4.5) |
| **Fair value of plan assets at 31 March** | **128.2** | **140.0** |

## Plan Assets

The major categories of plan assets are as follows:

| | 2013/14 | | 2014/15 | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Corporate Bonds | 25.4 | 20 | 28.7 | 20 |
| Gilts | 17.7 | 14 | 33.3 | 24 |
| UK Equities | 17.4 | 14 | 15.1 | 11 |
| Regional Overseas Equities | 14.5 | 11 | 14.0 | 10 |
| Developed Market Multi Asset Fund | 12.2 | 10 | 10.6 | 8 |
| Property | 12.1 | 9 | 13.0 | 9 |
| Developed Market Diversified Asset Fund | 11.4 | 9 | 14.1 | 10 |
| Hedge Funds | - | - | - | - |
| Emerging Market Multi Asset Fund | 10.6 | 8 | 11.5 | 8 |
| Cash Other | 6.9 | 5 | 0.3 | - |

## Assumptions

The principal assumptions made by the actuary for the NEC Limited Pension Fund were:

| | 2013/14 | 2014/15 |
|---|---|---|
| | % | % |
| Discount rate | 4.3 | 3.4 |
| RPI Inflation rate | 3.3 | 3.0 |
| CPI Inflation rate | 2.3 | 2.0 |
| Future Pension increases | | |
| - pension accrued prior to 5 April 2005 | 3.2 | 2.9 |
| - pension accrued after 5 April 2005 | 2.1 | 2.1 |

The base mortality assumptions of the main fund are based on SAPS tables and for the executive scheme are based on SAPS light tables. Adjustments were applied to reflect the schemes' population, with future improvements based on the CMI 2013 projection with long term rate of improvement of 1.25% pa. The allowance for future improvements last year was based on the CMI projection, also with long term rate improvement of 1.25% pa.

The life expectancy for members as at the balance sheet date;

| | 2013/14 Years | | 2014/15 Years | |
|---|---|---|---|---|
| | Main Fund | Executive Fund | Main Fund | Executive Fund |
| Male: member aged 65 (current life expectancy) | 22.2 | 23.9 | 22.2 | 23.9 |
| Male: member aged 45 (life expectancy at age 65) | 23.9 | 25.5 | 23.9 | 25.5 |
| Female: member aged 65 (current life expectancy) | 24.5 | 25.1 | 24.6 | 24.5 |
| Female: member aged 45 (life expectancy at age 65) | 26.4 | 27.0 | 26.5 | 27.1 |

## Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £9.8m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £8.9m
An increase of one year to life expectancy would increase the retirement benefit obligations by £4.8m
The duration of the plan liabilities is approximately 22 years

Reconciliation of Deficit

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| 1 April | (25.7) | (24.9) |
| Total income/(expenses) as above | (1.1) | (1.0) |
| Employer contribution | 2.0 | 2.0 |
| Remeasurement loss recognised in the OCI | (0.1) | (14.3) |
| **31 March** | **(24.9)** | **(38.2)** |

Expected Contributions for 2015/16

Under the schedule of contributions NEC Limited made a final contribution to the defined benefit scheme in April 2015 of £0.2m. On 1 May 2015, NEC Limited made a one-off contribution of £20.2m prior to completion of the sale.

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.

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Present value of funded defined benefit obligations | (38.1) | (48.9) |
| Fair value of plan assets | 40.0 | 46.4 |
| **Net (Liability)/Asset** | **1.9** | **(2.5)** |

Movements in the present value of defined benefit obligation:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| On incorporation | - | - |
| Balance at beginning of period | 43.4 | 38.1 |
| Transferred in | - | - |
| Current service cost | 1.5 | 1.2 |
| Interest cost | 1.9 | 1.8 |
| Actuarial (gains)/losses | (8.5) | 8.2 |
| Contributions by members | 0.4 | 0.4 |
| Curtailment | - | 0.1 |
| Benefits paid | (0.6) | (0.9) |
| **31 March** | **38.1** | **48.9** |

Movements in the fair value of plan assets:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Balance at beginning of period | 35.8 | 40.0 |
| Transferred in | - | - |
| Expected return on plan assets | 2.2 | 2.5 |
| Actuarial (gains)/losses | 1.4 | 3.8 |
| Contributions by employer | 0.8 | 0.7 |
| Contributions by members | 0.4 | 0.4 |
| Benefits paid | (0.6) | (0.9) |
| **31 March** | **40.0** | **46.4** |

Expense recognised in the profit and loss account:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Current service cost | 1.5 | 1.2 |
| Interest on defined benefit pension plan obligation | 1.9 | 1.8 |
| Curtailment | - | 0.1 |
| Expected return on defined benefit pension plan assets | (2.2) | (2.5) |
| **Total** | **1.2** | **0.7** |

The expense is recognised in the following line items in the profit and loss account:

| | 2013/14 £m | 2014/15 £m |
|---|---|---|
| Administrative expenses | 1.5 | 1.2 |
| Other interest receivable and similar income | (0.3) | (0.5) |
| | **1.2** | **0.7** |

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £7.9m.

The fair value of the plan assets and the return on those assets were as follows:

| | 2013/14 Fair Value | | 2014/15 Fair Value | |
|---|---|---|---|---|
| | £m | % | £m | % |
| Equities | 23.3 | 58 | 27.4 | 59 |
| Government Bonds | 3.3 | 8 | 3.7 | 8 |
| Other Bonds | 4.3 | 11 | 4.9 | 10 |
| Property | 3.6 | 9 | 4.0 | 9 |
| Cash/Liquidity | 1.1 | 3 | 1.9 | 4 |
| Other | 4.4 | 11 | 4.5 | 10 |
| **Total** | **40.0** | **100** | **46.4** | **100** |
| Actual return on plan assets: | 1.1 | | 6.2 | |

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

| | 2013/14 % | 2014/15 % |
|---|---|---|
| Discount rate | 4.6 | 3.4 |
| Expected rate of return on plan assets | 6.0 | 5.4 |
| Expected return on plan assets at beginning of period | 5.9 | 6.1 |
| Future salary increases | 4.2 | 3.8 |
| Future pension increases | 2.4 | 2.0 |
| Rate of CPI inflation | 2.4 | 2.0 |

In valuing the liabilities of the pension fund at 31 March 2015, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2015 would have increased by £0.9m.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.9 years (male), 25.5 years (female)
- Future retiree upon reaching 65: 25.1 years (male), 27.8 years (female).

**Note G21**
**Adjustments between Group Accounts and Council Accounts**

The following adjustments are made in the Groups Movement in Reserves Statement in order to reconcile the General Fund balance back to its Council position prior to funding basis adjustments being made.

| | General Fund Balance £m | Earmarked General Fund Reserves £m | Housing Revenue Account (HRA) £m | Earmarked HRA Reserves £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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2013/14 | | | | | | | | | | | | |
| Intra group loans | - | | | | | | | - | | - | - | - |
| Intra group capital grants | (13.5) | | | | | | | (13.5) | | (13.5) | 13.5 | - |
| Provision of goods and services to subsidiaries | 15.6 | | | | | | | 15.6 | | 15.6 | (15.6) | - |
| Purchases of goods and services from subsidiaries | (46.6) | | | | | | | (46.6) | | (46.6) | 46.6 | - |
| Intra group capital expenditure incurred by parent for subsidiary assets | - | | | | | | | - | | - | - | - |
| Gain on intra group exchange of assets | - | | | | | | | - | | - | - | - |
| **Total adjustments between Group accounts and Council accounts** | **(44.5)** | **-** | **-** | **-** | **-** | **-** | **-** | **(44.5)** | **-** | **(44.5)** | **44.5** | **-** |
| 2014/15 | | | | | | | | | | | | |
| Intra group loans | - | | | | | | | - | | - | - | - |
| Intra group capital grant | (15.7) | | | | | | | (15.7) | | (15.7) | 15.7 | - |
| Provision of goods and services to subsidiaries | 1.6 | | | | | | | 1.6 | | 1.6 | (1.6) | - |
| Purchases of goods and services from subsidiaries | (53.7) | | | | | | | (53.7) | | (53.7) | 53.7 | - |
| Intra group capital expenditure incurred by parent for subsidiary assets | - | | | | | | | - | | - | - | - |
| Gain on intra group exchange of assets | - | | | | | | | - | | - | - | - |
| **Total adjustments between Group accounts and Council accounts** | **(67.8)** | **-** | **-** | **-** | **-** | **-** | **-** | **(67.8)** | **-** | **(67.8)** | **67.8** | **-** |

**Note G22**
**Analysis of Minority Interest Shares in Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet**

The detail for 2013/14 has been restated to reflect the adjustments in the Council entity accounts as set out in Note 5, Prior Period Adjustments. Attributable shares of income and expenditure:

| 2013/14 (Restated) | | | | 2014/15 | | |
|---|---|---|---|---|---|---|
| Council | Minority Interests | Total | | Council | Minority interests | Total |
| £m | £m | £m | | £m | £m | £m |
| 453.5 | - | 453.5 | (Surplus)/Deficit on the provision of services | 40.9 | - | 40.9 |
| (7.7) | - | (7.7) | Share of Associates | (6.3) | - | (6.3) |
| (91.3) | - | (91.3) | Other Comprehensive (Income)/Expenditure | 468.6 | - | 468.6 |
| **354.5** | **-** | **354.5** | **Total Comprehensive (Income)Expenditure** | **503.2** | **-** | **503.2** |
| **354.5** | - | **354.5** | **Total movement in Balance Sheet** | **503.2** | - | **503.2** |

This analysis is not intended as an analysis of the movement in the Minority Interest balance recorded in the balance sheet and so does not include such opening balances.

**Note G23**
**Subsidiary Companies**

The Council maintains involvement with a number of subsidiary and associate companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group Financial Statements have been prepared in accordance with the Code.

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

**I. The National Exhibition Centre Limited Group**

The Company (The National Exhibition Centre Ltd) manages four venues within the West Midlands, namely the National Exhibition Centre, the Genting Arena, the Barclaycard Arena and the International Conference Centre (ICC). Following the signing of a new management agreement with the Council on 11th December 2009, the National Exhibition Centre Ltd manages and operates the venues itself as principal and acts as an agent in the collection and activities associated with the collection of sums payable under leases granted by the Council at the venues and the management of capital works.

The Council owned 5,000 £1 shares (50%) of the Company's ordinary share capital up to 11th December 2009. On that date the Council acquired a further 5,000 'A' shares from the Birmingham Chamber of Commerce and Industry which results in the Council owning all of the Company's 'A' shares. The Birmingham Chamber of Commerce and Industry hold 1 'B' share in the Company. From 11 December 2009 the company is consolidated as a wholly owned subsidiary, and no minority interest is attached to Birmingham Chamber of Commerce and Industry as their share holding does not allow for any distributions from the company.

The Council guarantees the group's solvency and provides grant funding. At 31 March 2015, the Council was guaranteeing loans of £192.4m (2013/14: £192.4m) to the Company. The group made a loss after tax of £0.1m during the year to 31 March 2015 (2013/14: profit of £0.8m). The group's net liabilities at 31 March 2015 amounted to £8.9m (2013/14: £11.4m).

The National Exhibition Centre Ltd and its subsidiaries NEC Finance plc, NEC Pension Trustee Company Ltd and NEC (Ireland) Ltd are controlled companies under the Local Authorities (Companies) Order 1995 (S.I 849). This means that a number of finance and property controls apply in relation to these company activities.

NEC Finance Plc was formed to raise capital through the issue of listed debenture stock to finance the construction of the ICC, the NIA and the expansion of the NEC through the construction of halls 9 to 12. The main activity of the NEC Pension Trust Company is to act as a trustee to the National Exhibition Centre Ltd Executive Pension Fund. NEC (Ireland) Ltd was formed to provide strategic and operational management consulting services to the Convention Centre Dublin.

NEC Property (Number One) Ltd was formed in December 2014 to hold certain leasehold interests following completion of the NEC Ltd sale process.

The year end of the Group is 31 March 2015. For the purposes of the consolidation these group 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 at the year end between the Council and the National Exhibition Centre Limited Group can be found within Note 48 of the Council's entity financial statements.

On 16 January, the Council announced that it had entered into a binding agreement to sell The National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The sale agreed involved a number of transaction, the key ones of which were:

- Disposal of the Council interests in NEC Ltd;
- Transfer of the on-going funding of the NEC defined benefit pension schemes to a wholly owned subsidiary of the Council;
- Termination and re-signing of existing lease agreements.

The assets held in the Group financial statements that are related to the disposal of NEC Ltd have been categorised as Assets Held for Sale.

The sale was completed on 1 May 2015.

**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 new halls. The new building has been financed by a loan stock issue of £73 million by the company which is guaranteed by the Council. The Company was originally formed between Birmingham City Council, Emap Limited (formerly Emap Business Communications Limited) and Birmingham Chamber of Commerce and Industry. In March 2010 the Council acquired the shares and outstanding loan stock previously held by Emap Limited. On 26 March 2010 the Council increased its holding to 875 of 1,000 ordinary shares of £1 each and all of the Company's 100,000 £1 preference shares. On 10 September 2010 the Council acquired the remaining ordinary shares and so now owns all the share capital.

The Council has loan notes totalling £1.1m (2013/14: £1.3m). The loan notes are repayable in instalments and repayments commended in 2014/15. The loss before and after tax for the year ended 31 March 2015, amounted to £0.02m (2013/14: £0.02m). The net liabilities at 31 March 2015 amounted to £2.3m (2013/14: 2.2m).

The National Exhibition Centre (Developments) Limited is a controlled company under the Local Authorities (Companies) Order 1995 (S.I 849). This means that a number of finance and property controls apply in relation to the company activities.

The year end of the company is 31 March 2015. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Included in the disposal of NEC Ltd, as set out in I. above, were building assets held by National Exhibition Centre (Developments) Plc in respect of Halls 17-20. formed part of the sale. These assets have been categorised as Assets Held for Sale within the Group Financial Statements.

The Council continues to retain ownership of NEC (Developments)

**III. Innovation Birmingham Limited Group (Birmingham Technology Limited Group to 2 May 2013)**

The Innovation Birmingham Group of companies aims to promote, encourage, and secure the development and management of a science park in Birmingham. BCC holds a debenture over the property of the group as security for its financial guarantees. The Council is the sole member of Innovation Birmingham Limited Group which is a company limited by guarantee. The Council is also entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council is exercised by its 71% share of directors voting rights. The Council's direct interest in Birmingham Technology (Property) Limited (a subsidiary company of BTL) is 1,250 £1 ordinary shares (12.5% interest). The Council also directly holds 500 £1 ordinary shares (9.1% interest) in Birmingham Technology (Venture Capital) Limited. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and as such dividends. The profit for the year for the group to 31 March 2015, amounted to £0.8m (2013/14: £0.4m), with the net assets at 31 March 2015 amounting to £0.02m (2013/14:£0.8m net liabilities).

The year end of the company is 31 March 2015. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this company.

Information regarding transactions during the year and balances held at the year end between the Council and Innovation Birmingham Limited Group can be found within Note 48 of the Council's entity financial statements.

**IV. Performances Birmingham Limited**

Performances Birmingham Limited is the Charity that manages and runs the Birmingham Town Hall and Symphony Hall. The company is limited by guarantee and was founded by Birmingham City Council in collaboration with The University of Aston and Lloyds Bank in 1982. The Charity is solely controlled by the Council with the financial statements prepared in accordance with the Charity Commission's Statement of Recommended Practice. This means that there are restrictions on the use of the funds which are available to the Charity. The net income for the year for the group to 31 March 2015, amounted to £0.1m (2013/14: £0.2m net expenditure), with the net assets at the 31 March 2015 amounting to £1.9m (2013/14: £1.8m).

The year end of the charity is 31 March 2015. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this charity.

Information regarding transactions during the year and balances held at the year end between the Council and Performances Birmingham Limited Group can be found within Note 48 of the Council's entity financial statements.

**V. Birmingham Museums Trust**

Birmingham Museums Trust Group is a Charity that manages nine museum sites, namely, Birmingham Museum and Art Gallery, The Museum Collection Centre, Thinktank, Soho House, Aston Hall, Museum of the Jewellery Quarter, Blakesley Hall, Weoley Castle and Sarehole Mill. The Trust is a charitable company limited by guarantee, (the Council being sole member), and is controlled by the board of trustees The financial statements are prepared in accordance with the Charity Commission's Statement of Recommended Practice, which restricts the use of funds to charitable purposes, as defined in its objects. The net income for the year for the group to 31 March 2015, amounted to £0.03m (2013/14: £0.4m), with the net assets at the 31 March 2015 amounting to £3.8m (2013/14: £3.9m).

The year end of the charity is 31 March 2015 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the charity.

Information regarding transactions during the year and balances held at the year end between the Council and Birmingham Museums Trust Group can be found within Note 48 of the Council's entity financial statements.

**VI. Acivico Limited**

Acivico Limited is a registered company, which is wholly owned by Birmingham City Council. The company was launched in April 2012, with three special purpose vehicles (SPVs), one holding company and two trading companies. The two trading companies, Acivico Design Construction and Facilities Management Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to Birmingham City Council and to other public and private sector clients. The Council has agreed to receive specified services from Acivico for the five years up to 31 March 2017. The Council owns 1 £1 share (100%) of the Company's ordinary share capital and with effect from the 2013 financial year, (the first year of trading), the company was consolidated as a wholly owned subsidiary.

The group made a profit after tax of £0.6m during the year to 31 March 2015 (2013/14: £1.3m loss) and the group's net liabilities at 31 March 2015 amounted to £4.0m (2013/14: net liabilities £0.1m).

The year end of the company is 31 March 2015 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year end between the Council and Acivico Limited Group can be found within Note 48 of the Council's entity financial statements.

The subsidiaries that have not been consolidated into the Group Financial Statements are listed below

**I. InReach (Birmingham) Limited**

The Council set up InReach (Birmingham) Limited in 2014/15, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The company has not been consolidated into the Council's Group Financial Statements as the level of transactions and balances to date is not considered material to the Group. However, it is anticipated that the level of transactions will increase during the 2015/16 financial year such that the company would be consolidated into the Group Accounts at that time.

**II. PETPS (Birmingham) Limited**

On 16 January 2015, the Council announced that it had entered into a binding agreement to sell the NEC and under the terms of the sale, the NEC defined benefit pension schemes, which have been closed to accrual of future benefits since 2010, will be retained by and benefit from the continued financial support of a wholly owned subsidiary of the Council, PETPS (Birmingham) Limited.

The sale of the NEC was completed on 1 May and the Council became the sole guarantor of the pension schemes. As a result, PETPS (Birmingham) Limited will fall within the Group boundary in the 2015/16 financial year and, if material, be consolidated with the Group Financial Statements.

**Note G24**
**Associate and Joint Venture Companies**

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

### I. Birmingham Airport Holdings Ltd (BAH)

The main ordinary shareholders of BAH are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324 million ordinary shares of 1p each (Birmingham City Council owns 18.7% i.e. 60,535,200 shares). 48.25% ordinary shares are held by Airport Group Investments Ltd which is owned by the Ontario Teachers' Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4 million of BAH's 6.31% preference shares (The Council owns £5,866,800) which are cumulative and redeemable.

The BAH Group Accounts incorporate Birmingham International Airport Ltd, Euro-Hub (Birmingham) Ltd, Birmingham Airport (Finance) Plc, First Castle Developments Limited, Birmingham Airport Developments Limited and BHX Fire and Rescue Limited, Birmingham Airport Services Limited, BHX (Scotland) Limited and BHX Limited partnership.

The principal activity of the group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations.

The year end of the company is 31 March 2015. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As BCC hold 18.7% within this 49% it is considered that BCC have greater power to influence the voting of block;

- 25% of the BAH Board of Directors (4 of 16) are BCC 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 2014 £m | | 31 March 2015 £m |
|---|---|---|
| 501.4 | Non-Current Assets | 451.6 |
| 36.0 | Current Assets | 39.9 |
| (39.9) | Current Liabilities | (48.2) |
| (233.1) | Non-Current Liabilities | (244.3) |
| 264.4 | Net Assets | 199.0 |
| **49.4** | **Council Interest in Net Assets @ 18.68%** | **37.2** |
| **113.8** | **Revenue** | **121.0** |
| 16.7 | Post-Tax Profit/(loss) | 15.3 |
| (80.1) | Other Comprehensive Income/(Expenditure) | (80.6) |
| (63.4) | Total Comprehensive Income/(Expenditure) | (65.3) |

The carrying value of the Council interest in this entity is £37.2m (2013/14: £49.4m), which is included with the Investments in Associates and Joint Ventures balance of £38.9m (2013/14: £51.7m), shown in the Group Balance Sheet.

Birmingham Airport Holdings Ltd at 31 March 2015 have disclosed within their financial statements three existing contingent liabilities: 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 the 22 February 2021 and caries a fixed interest rate of 6.25% per annum. On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75 million private placement senior notes received by Birmingham Airport (Finance) plc. Series A senior notes of £30 million are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45 million are for a period of fifteen years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum. On 3 December 2013 the company along with other members of Birmingham Airport Holdings Limited provided guarantees to the Royal Bank of Scotland plc in support of a £20 million banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 3 December 2018. At the date of these accounts the total amount outstanding under this facility was £nil.

### II. Service Birmingham Limited

The company was incorporated on the 22 December 2005 and operates between Capita Business Services Limited, who hold 650 Ordinary-B shares (68%), and Birmingham City Council who hold 300 Ordinary-A shares (32%). The company was formed to facilitate the strategic partnership between the two entities and operates within the ICT and Advisory Services division of the Capita Group plc. Trading commenced on the 1 April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the Council.

The year end of the company is 31 December 2014, in line with that of parent company Capita PLC. For the purposes of the consolidation these accounts have been used as they fall within three months of the Council's year end, with adjustments being made for the three month periods at the start and end of the reporting year. There was no qualification on the audit opinion for these audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

| 31 March 2014 £m | | 31 March 2015 £m |
|---|---|---|
| 9.9 | Non-Current Assets | 7.2 |
| 26.5 | Current Assets | 39.4 |
| (29.0) | Current Liabilities | (41.1) |
| - | Non-Current Liabilities | - |
| 7.4 | Net Assets | 5.5 |
| **2.3** | **Council Interest in Net Assets @ 32%** | **1.7** |
| **105.9** | **Revenue** | **96.7** |
| 14.3 | Post-Tax Profit/(loss) | 10.7 |
| (23.0) | Other Comprehensive Income/(Expenditure) | (12.5) |
| (8.7) | Total Comprehensive Income/(Expenditure) | (1.8) |

The carrying value of the Council interest in this entity is £1.7m (2013/14: £2.3m), which is included within the Investments in Associates and Joint Ventures balance of £38.9m (2013/14: £51.7m), shown in the Group Balance Sheet.

The associates and joint ventures that have not been consolidated into the Group Financial Statements are listed below.

**I. Paradise Circus Limited Partnership**

The Council has entered into a joint venture arrangement with BRITEL Funds Trustees Limited through Paradise Circus Limited Partnership. The partnership will facilitate the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims, generating economic growth and job creation through the regeneration of the area. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015. The Council and BRITEL Funds Trustees Limited share control of the joint venture on a 50/50 basis. Although the entity falls within the Group Boundary, at the 31 March 2015 the Council's share of the net equity was not considered material to the Group and, therefore, it was not included within the Group Accounts. However, it is anticipated that the level of activity will increase during the 2015/16 financial year, such that the Council's share of the net equity will be material and will be accounted for within the Group Accounts at that time.

Birmingham City Council

# Annual Governance Statement 2014/15

## Annual Governance Statement 2014/15

### 1. Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available as part of the Council's Constitution on the website. This statement explains how the Council has complied with the code and also meets the requirements of *Accounts and Audit (England) Regulations 2011*, regulation 4 (3) which requires all relevant bodies to prepare an annual governance statement (AGS).

### 2. The purpose of the governance framework

2.1. Governance is about the Council ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.3. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.4. The governance framework has been in place at the Council for the year ended 31 March 2015 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 purpose and vision for Birmingham

3.2. In a Policy Statement to Council in July 2014, the Leader set out a core mission to "work together for a fair, prosperous and democratic city".

3.3. The Council Business Plan and Summary Budget 2015+ (The Plan) sets out the Council's priorities in terms of the Council's contribution to strategic outcomes as shown below:

| Primary goal | Key Themes | Outcomes we seek |
|---|---|---|
| A Fair City | Safety | People are safe, especially the most vulnerable – from crime, violence and abuse. |
| | Health and wellbeing | Health and wellbeing, housing quality and life expectancy are at national levels for all. Older people are able to stay in their own homes and communities. |
| | Children and young people | Children are protected and young people are able to access opportunities regardless of background or special needs. |
| | Tackling poverty | Poverty amongst children and families is down to national averages – Birmingham has an ethical approach as a 'Living Wage City' and no social groups or local areas are blighted by extreme levels of unemployment and low incomes. |
| A Prosperous City | Learning, skills and local employment | People have the qualifications they need for work, including school leavers and the working age population. Young people are exposed to the world of work and career options. Skill levels are high and all young people are in employment, education or training. Everyone has access to the digital economy. |
| | Enterprise City | The economy is growing, business start-ups are the highest in the core cities and good jobs are being created. |
| | Infrastructure, development and Smart City | There is a sufficient affordable and low energy use housing supply to meet needs, provision for employment land and high levels of investment in transport and other infrastructure, including cycling and walking, digital technologies and district energy systems. |
| | A Green and sustainable City | Birmingham is more environmentally sustainable, with higher levels of recycling, lower energy use and cleaner neighbourhoods. There is a thriving green economy. |
| | Regional capital and reputation | The city fulfils its role as the regional capital and provides a quality of life that attracts more investors, visitors and also employees. |
| A Democratic City | Engagement, influence and contribution | Local people from all backgrounds are engaged in local democracy and have more influence on local decisions and localised services. Communities and individuals are able to make their contribution to the life of the city and governance is based on openness and transparency. |
| | A New Model of City Government | The government of the city will be transformed to match modern needs. |
| | Modern services that serve our citizens | Services work together, make use of new technologies and modern 'hub' facilities and are focused on 'whole people' and 'whole places'. Citizens, businesses and agencies can co-create new services |

3.4. The Plan is updated each year and is available on the Council's web-site.

3.5. The Council has a strong public, third sector, and business engagement role. There is an established Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements is led by Overview and Scrutiny.

3.6. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

3.7. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with the public and reflect the vision articulated in the Leader's Policy Statement 2014. Progress against these priorities is monitored through a set of Council Business Plan measures, which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and quarterly reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.8. The Plan also includes a summary of high level actions for each Directorate to achieve the Council's priorities. These are supported in turn by more detailed Directorate and Service Plans which are also regularly monitored and reviewed against a set of performance indicators. However, the Kerslake report takes the view that the reductions so far have been too reactive and tactical. They need to be more strategic, transformational and underpinned by stronger analysis and makes the recommendation "BCC needs as a matter of urgency to develop a robust plan for how they are going to manage their finances up to 2018/19 without recourse to further additional funding from central Government". The Council is responding to this as a central part of its Future Council work.

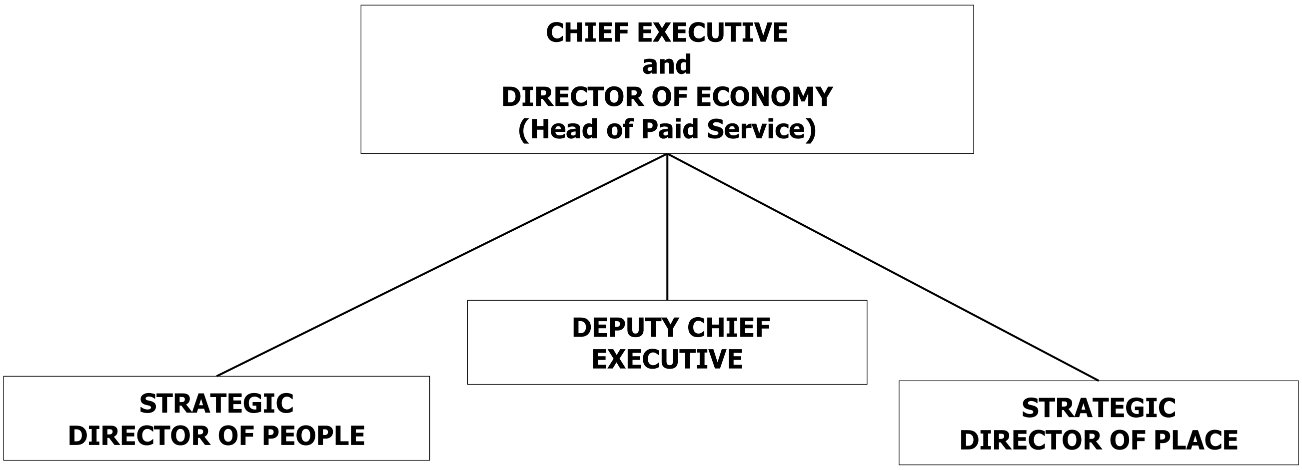
3.9. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for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

Roles of Members and Officers

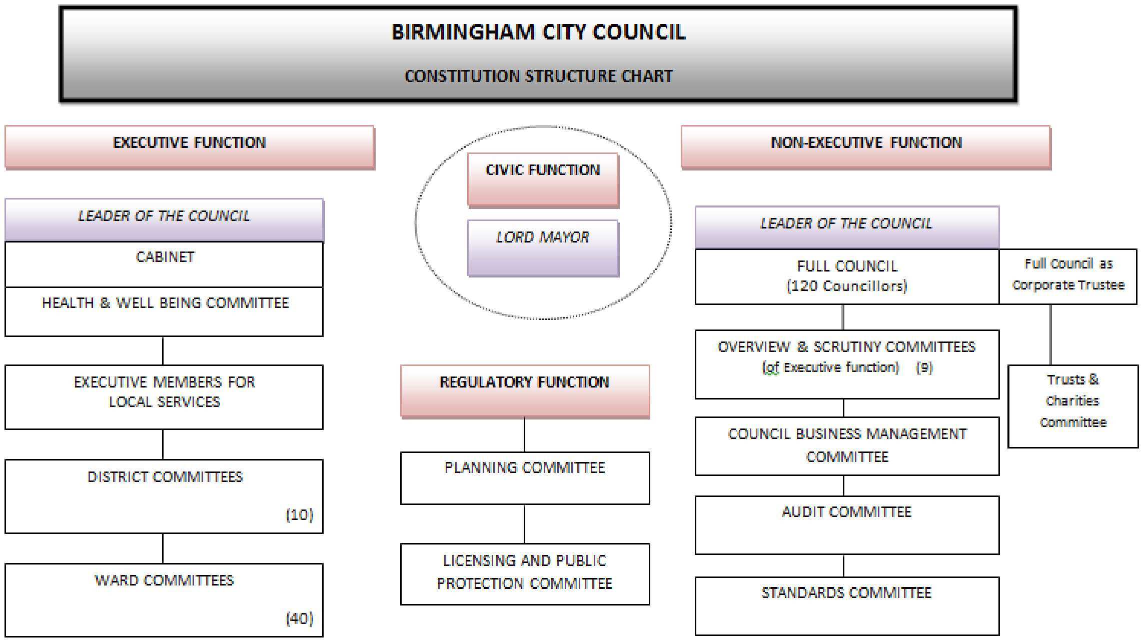
3.10. The Council's Constitution is codified into one document which is available on the intranet and the City's website. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by the Director of Legal and Democratic Services and any amendments are agreed at the Annual General Meeting. A revised and updated Constitution was agreed in May 2014. Further amendments were made during the year with the latest amendments made in March 2015. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee.

3.11. The Council operates within three Directorates, Economy, People and Place.

Management Structure




3.12. The Council facilitates policy and decision–making via an Executive Structure. There were nine members of Cabinet for the 2014/15 financial year: The Leader, Deputy Leader and seven specific Cabinet Member Portfolios based on a thematic structure. The Constitution Structure Chart is set out below:




3.13. Constitutional changes in May 2015 resulted in an eighth specific Cabinet Member Portfolio and revisions to the role of district committees and to the role and number of Overview and Scrutiny Committees.

3.14. The Council Business Management Committee (CBM) agrees the management of City Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.

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

3.16. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the annual accounts.

3.17. The Council's Constitution sets out the responsibilities of both Members and senior managers. In particular the Council has identified four statutory posts as follows:-

Head of Paid Service - Chief Executive
Chief Finance Officer - Director of Finance
Monitoring Officer - Director of Legal & Democratic Services
Scrutiny Officer - Head of Scrutiny Services

3.18. Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Strategic Directors.

Financial Management Arrangements

3.19. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Role of the Chief Financial Officer:

The Chief Finance Officer (CFO) is a key member of the Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy.

The CFO leads the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Director of Finance as the Council's CFO:

- leads and directs a finance function that is resourced to be fit for purpose; and
- is professionally qualified and suitably experienced.

Values and standards of conduct and behaviour

3.20. The Council has a Code of Conduct for Members and a Code of Conduct for Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received. All Council employees participate through work groups in developing actions based on these values which assist in ensuring effective service delivery and the development of the whole organisation.

Scrutiny, Accountability and Risk Management

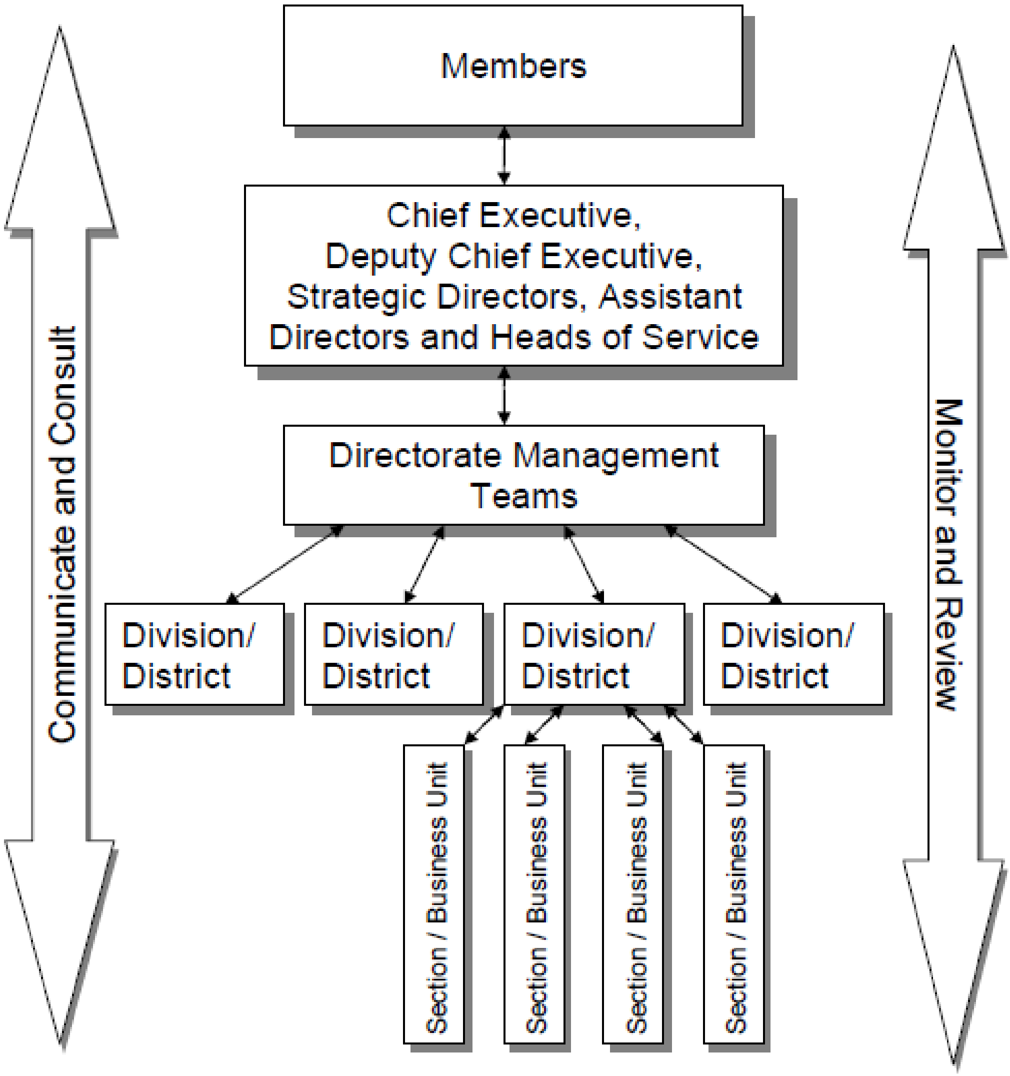
3.21. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.22. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.

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

3.24. Risk management continues to be embedded within the Council. The following diagram illustrates how risk is managed:

**Managing risk in Birmingham City Council**




3.25. The revised Risk Management Policy, Strategy and Methodology have been placed on the Council's website, and advice and support is provided as requested - an example of this was the series of risk workshops ran in relation to the change in banking providers. The Council Business Plan 2015+ Budget Report and Resource Plan, includes a summary risk register which is supported by the Corporate Risk Register. The Corporate Risk Register is reviewed at the monthly Governance Group meetings and updated information regarding the management of the risks continues to be reported three times a year to the Audit Committee. The draft version is reviewed by the Effectively Managed Corporate Business (EMCB) Corporate Leadership Team sub-group. This provides challenge and is a forum for routine discussion of risks facing the Council. In addition business plans at directorate and divisional level include key risks.

3.26. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Communications Technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The City Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Capacity and Capability

3.27. The financial reductions facing the Council are impacting on workforce capacity and having a flexible, skilled and mobile workforce will be critical to enable the Council to effectively respond to increasing demand and reducing resources.

3.28. The Council has in place a strategy for facilitating the implementation of the Service Reviews including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects. In addition there are number of work streams focused on immediate performance priorities which include the improvement agenda in Children's Services, improving attendance across the Council and ensuring a robust framework for terms and conditions and pay are in place to eradicate any potential for further equal pay risks.

3.29. The Future Council sub programme, Forward: The Birmingham Way will work to provide a framework that will support the workforce to be the right people doing the right things in the right way.

3.30. There is a dedicated area of the intranet for Member issues and a newsletter, City Councillor, is produced and circulated by Democratic Services, by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. Regular monthly "market places" and briefing sessions are held to keep Councillors up-to-date with Council Services or services provided by Partner Organisations. Group Offices encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative.

3.31. The Governance, Resources and Customer Services Overview and Scrutiny Committee carried out a review of Member training and a new approach to Member Development was agreed. The starting point for this approach was the May 2014 elections. A programme of training and development options including outlining the Council's services, the Members' Code of Conduct and Council Governance, one to one sessions, legislative training and further development opportunities has been developed.

3.32. During 2014/15, the Personal Development and Review Process for all staff ensured that individual's targets were aligned with those of the organisation and enabled a consistent means of assessing and rewarding performance. It also provided a way of developing tailored training and development programmes for staff in a changing environment and managing the Council's system of competence based pay progression. The process has been reviewed for 2015/16 and the Council has launched the 'My Appraisal' process.

Engagement with the community and other stakeholders

3.33. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Business Plan 2015+ consultation process included consultation via online webcast question and answer sessions with Cabinet Members, consultation via post, mail, text and through the City's website, public meetings, community workshops, consultation with business representatives, delivery partners and third sector group; via a workshop for voluntary organisations organised in partnership with the Birmingham Voluntary Services Council, meetings with staff, Trade Unions and web chat sessions with the Leader of the Council.

3.34. Lord Kerslake's report identified that the council should facilitate the creation of a new independent Birmingham leadership group and that Birmingham City Council needed to redefine their partnership approach. The Council has been in discussions with an initial group of partners about the development of a City Partnership Group (CPG) – the form that this group could take, and the function that it should fulfil within the City. The Council and partners will be holding a series of engagement events over the summer of 2015 to gather views from a wider audience about how best to take forward the development of the City Partnership Group.

3.35. 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.

3.36. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible.

Directorates have extensive programmes of consultation and engagement activity for specific services.

4. **Review of effectiveness**

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Corporate Leadership Team within the Council who have responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, "Delivering Good Governance in Local Government" and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets how the Council meets these roles and principles in its control and governance arrangements.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. This requires each Directorate and Service area to produce an Assurance Statement to the Chief Executive highlighting significant governance issues to be brought to his attention and the control procedures and mechanisms the Directorates have in place.

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

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

4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution. The Director of Finance 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 2011. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

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

4.7. The resulting work plan is discussed and agreed with the Strategic Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the City Council and the Service Area. These are submitted to Members, Strategic Directors and service managers as appropriate.

4.8. From the work undertaken by Birmingham Audit in 2014/15 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to EMCB. The more significant of these are set out in the section entitled '**Significant governance issues 2014/15'** below.

4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the Annual Governance Statement and in implementing recommendations made in significant, high risk audit reports.

4.10. The Council's Governance, Resources and Customer Services Scrutiny Committee received reports on key control issues throughout 2014/15 including budgetary monitoring, risk issues including the Localisation of Council Tax Support and direct reports from The Leader and Deputy Leader.

4.11. The Council Plan is monitored through the Council Business Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.12. The Director of Legal and Democratic Services advises that there were 46 whistleblowing complaints in the 2014/15 financial year. On 12$^{th}$ January 2015, a revised whistleblowing policy was implemented and members of the public as well as staff may now use the procedure. This has resulted in a greater number of complaints. Each complaint will be reviewed and investigated where appropriate.

## 5. Review of 2013/14 governance issues

5.1. During 2014/15, the significant 2013/14 governance issues were considered by Audit Committee in June, with updates in November 2014 and March 2015. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience and organisational change issues.

5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues raised within Lord Warner's Report and governance in schools.

5.3. Monthly Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.

5.4. Lord Kerslake's report reviewing governance arrangements within the Council was published on 9th December 2014. Action plans in response to the comments made were initiated between January and March 2015 and continue into 2015/16.

5.5. Ian Kershaw completed his review into the issues that related to the anonymous Trojan Horse letter in July 2014. The Council continues to act upon the recommendations made into this report and has reviewed the governance arrangements within schools and training for governors.

## 6. Significant governance issues 2014/15

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

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 1 | Safeguarding children remains a priority.<br><br>Work will include implementing action plans as a result of the review by Commissioner Lord Warner, producing a robust Business Plan for 2015/16 and future years and evaluating the strength of Senior Management arrangements. | The Council has worked with the Children's Commissioner, Lord Warner, to produce a Children's Social Care Improvement Plan 2014-17 (published 7th July 2014) in order to take forward the key and fundamental changes that are urgently required to improve safeguarding and protection of children. Increased funding of £21.5m has been allocated in the 2015/16 financial year. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| | The Care Act 2014 sets out the legal requirements for adult safeguarding. | The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act. |
| 2 | The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council, the potential for significant organisational upheaval as well as workforce reductions and compulsory redundancies.<br><br>The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years.<br><br>Given the Council is in the fifth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high. | 7 Member-led service reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. Recommendations from the reviews were considered as part of the Business Plan 2015+.<br><br>In its future year's business planning, by focusing on the position at 2020/21 and changes required to meet the budgetary position at this time, the Council is able to ensure that sustainable plans are put in place for its services and its assets, and the full on-going consequences of these taken into account, rather than just concentrating on short-term and, potentially, sub-optimal solutions. |
| 3 | The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for external auditors and increasing demands to evidence Going Concern. | The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 4 | Lord Kerslake reviewed the governance arrangements of the City Council during 2014/15. The recommendations in the report are summarised as follows:<br>• Appoint an independent improvement panel and draw up an improvement plan<br>• Clarify roles and responsibilities between officers and members, develop a simplified planning framework, strengthen the corporate centre and introduce a programme of culture change<br>• Move to all out elections and undergo an Electoral Review<br>• Develop a robust financial plan up to 2018/19<br>• Strengthen the HR function<br>• Establish a new model for devolution<br>• Facilitate the creation of a new independent leadership group<br>• Redefine the council's partnership approach<br>• Complete a combined authority governance review by July 2015<br>• Creation of a new partnership vehicle focussed on employment and skills<br><br>The Independent Improvement Panel signed off the council's Year 1 Improvement Plan on 23 March 2015. | The Council's response is encompassed in the Future Council Programme. The Future Council Programme has six key parts which are referred to in the Independent Improvement Panel June 2015 report. These are:<br>• **Whole Council** – this is the key building block for all of the work programmes and identifies the vision and values for the Council of the future – answering the "what are we here for?" and the "how will we change?" questions<br>• **Council Operating Model** – this focuses on developing an approach for how the Council will work in the future and the financial planning to underpin it<br>• **Forward the Birmingham Way** – this looks at the changes we need to make to the workforce, and how we can work together better, both internally and with our partners<br>• **Political Governance** - this focuses on the role of elected members in empowering communities and better connecting people to the design and delivery of local services<br>• **Partnerships** - this creates an outward looking, inclusive approach to the way we operate that concentrates on the best interests of the city and those who live and work here<br>• **Integrated Support Services** - this ensures that internal support services (e.g. HR, Finance, Performance, Policy etc.) work in an integrated, efficient way that serves the rest of the organisation and our customers and partners<br><br>A West Midlands Combined Authority Launch Statement was issued on 6 July 2015. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 5 | The Council is increasingly using or considering alternative delivery vehicles and innovative solutions in the delivery of Council services to facilitate the Future Council agenda.<br><br>This includes the Council created wholly owned company, Acivico into which services such Building Cleaning, Birmingham City Laboratories and Civic Catering have been transferred.<br><br>Other options may include:<br>• The potential transfer of Specialist Care Services to a Mutually Owned Social Enterprise (MOSE) during 2015/16.<br>• Outsourcing of services.<br>• Commissioning services | Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.<br><br>The business cases are being developed with the full engagement of City Finance, Corporate Procurement, clients and third parties and will seek to address and gain agreement on issues such as income targets, surpluses and cost of transfer.<br><br>Services should only transfer when there is a mutual benefit to both the Council and the third party |
| 6 | Sir Mike Tomlinson was appointed by the Secretary of state as Education Commissioner to oversee the Council's actions to address the fundamental criticisms in the Kershaw and Clarke reports. Sir Mike Tomlinson's review is on-going, however initial discussions and actions were brokered to ensure a strong future in Education. | Sir Mike Tomlinson's role will continue to 2016.<br>Proposals have been brought forward on the role of the Birmingham Education Partnership (BEP) and how the Council will align with new roles for schools.<br><br>Action is concentrated on completing the final shape of future partnership arrangements, and setting a commissioning plan showing how resources will be utilised to meet needs. |

| Issue No | Governance Issue | Mitigation Action / Proposed Action |
|---|---|---|
| 7 | The risk of the Information Commissioners Office (ICO) imposing financial penalties for failure to comply with statutory obligations in responding to information requests under Freedom of Information (FOI) & Data Protection (DPA) legislation, or loss of significant personal or other sensitive data. | Strengthened procedures.<br><br>All staff to be aware of their responsibilities to manage data effectively and be appropriately trained.<br><br>Improved response rates to Subject Access Requests (SARs). |

6.2. These matters are monitored through the Corporate Risk Register, Corporate Management Team 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 Sir Albert Bore
Leader of the Council

Signed …………………………..
Mark Rogers
Chief Executive
(& Head of Paid Service)

Signed ………………………………
Jon Warlow
Director of Finance
(& Chief Finance Officer)

Signed ………………………..
David Tatlow
Director of Legal and Democratic Services (& Monitoring Officer)

## Statement of Responsibilities for the Statement of Accounts

### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Birmingham City Council this is the Director of Finance;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- approve the Statement of Accounts.

### The Director of Finance's Responsibilities

The Director of Finance 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 Director of Finance has:

- selected suitable accounting policies and applied them consistently;

- made judgments and estimates that were reasonable and prudent;

- complied with the Code.

The Director of Finance has also:

- kept proper accounting records which are up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

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**Jon Warlow, Director of Finance**
**29 September 2015**

### Approval of Accounts

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was approved by the Audit Committee on 29 September 2015.

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**Councillor Sam Burden, Chair of Audit Committee**
**29 September 2015**

## Glossary

**Academy School**
A school that chooses to opt out of Local Authority control and receive its funding direct from the Education Funding Agency.

**Accruals**
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

**Amortised Cost**
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

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

**Balances**
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

**Beacon Properties**
In valuing the Housing Stock the Council's properties are grouped into similar types and a sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

**Capital Charge**
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

**Capital Expenditure**
Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

**Capital Receipt**
Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the Council.

**Cash Flow Statement**
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

**CIPFA SOLACE**
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

**Collection Fund**
A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of national non-domestic rates (NNDR) collected.

**Community Assets**
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Comprehensive Income and Expenditure Statement (CIES)**
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

**Consistency**
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Creditors**
Amounts owed by the Council for work done, goods received or services rendered, but for which payment has not been made by the end of the year.

**Debtors**
Sums of money owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

**Deferred Capital Receipts**
These represent income that is still due following disposal of an 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 scheme 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.

**Depreciation**
The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset.

**Earmarked Reserve**
A sum set aside for a specific purpose.

**Effective Interest Rate**
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

**Emoluments**
Payments received in cash and benefits for employment.

**Events After the Reporting Period**
Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

**Existing Use Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Fair Value**
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or the use of the asset.

**Fees and Charges**
Income arising from the provision of services, for example, the use of leisure facilities.

**Finance Lease**
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

**General Fund**
The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.

**Government Grants**
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to a local authority, in return for past or future compliance with certain conditions relating to the activities of that local authority.

**Heritage Assets**
Assets that the council intends to hold for the purpose of informing or educating the public about their heritage, and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**
A separate account detailing the expenditure and income arising from the provision of Council housing.

**Impairment**
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

**Infrastructure Assets**
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

**Investment Properties**
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm’s length.

**Investments**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor’s ability to dispose of the investment.

**Lender Option Borrower Option (LOBO)**
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

**Liabilities**
Amounts due to individuals or organisations, at the balance sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

**Market Value**
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Materiality**
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Minimum Revenue Provision (MRP)**
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

**Movement in Reserves Statement (MiRS)**
This Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

**National Non-Domestic Rates (NNDR)**
Rates that are levied on business properties.

**Net Book Value**
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**Operating Lease**
A lease other than a finance lease.

**Operational Assets**
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

**Precept**
Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), that cannot directly raise council tax themselves.

**Prior Period Adjustments**
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Private Finance Initiative (PFI)**
A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.

**Property, Plant and Equipment**
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Provisions**
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

**Related Parties**
There is a detailed definition of related parties in FRS8, *Related Party Disclosures*. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

**Reserves**
Reserves are reported in two categories.

Usable Reserves
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

Unusable Reserves
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in

Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.

**Revenue Expenditure**
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

**Revenue Expenditure Funded from Capital Under Statute (REFCUS)**
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in an non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

**Revenue Support Grant (RSG)**
A grant from Central Government towards the cost of providing services.

**Soft Loan**
Loans at nil or below prevailing interest rates are often referred to as soft loans.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

We have audited the financial statements of Birmingham City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Birmingham City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword to the Accounts and the Group Foreword to the Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Birmingham City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**Emphasis of Matter – equal pay claims**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the Comprehensive Income and Expenditure Statement, notes 1, 3, 4, 6, 7, 10, 13, 32, 33 and 41, the Housing Revenue Account Income and Expenditure Statement and note H9 to the financial statements concerning the uncertain outcome of claims made against the Authority under equal pay legislation. The final amount payable and timing of the payments is uncertain and influenced by court judgements; the number of claims the Authority receives; the outcomes of negotiations in respect of the claims and associated oncosts. The ultimate liability can fluctuate significantly and, therefore, may materially increase or decrease the provision included in the financial statements for these claims. Accordingly, the impact of this uncertainty on the provision currently included in the financial statements cannot be quantified.

**Opinion on other matters**

In our opinion, the information given in the Foreword to the Accounts and the Group Foreword to the Accounts for the financial year for which the financial statements is prepared is consistent with the financial statements.

**Matters on which we report by exception**

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Basis for qualified conclusion**

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

- The Secretary of State for Communities and Local Government appointed an Improvement Panel in January 2015 in response to recommendations made in Sir Bob Kerslake's review of the Authority in his report dated December 2014. The Panel has recognised that the Authority is making some progress in addressing the recommendations made. It has however expressed concerns relating to slow progress in the development of a City Partnership and an agreed vision for the City and the securing of sufficient senior management capability.
- In May 2014 OFSTED reported that the most vulnerable children in Birmingham continue to be failed by the local authority and that there was an insufficient focus on

children who needed help and protection and who need to be cared for. Following this inspection a three year improvement plan has been agreed by the Authority and this plan is being implemented. However, at this time services for vulnerable children continue to be rated as inadequate by OFSTED.

- Significant failings in the Authority's management of schools were identified by Peter Clarke in July 2014 and the Secretary of State for Education appointed an Education Commissioner in September 2014 to oversee the implementation of improvements in the management of schools at the Authority. A Single Integrated Plan has been developed by the Authority, but this plan has not yet been fully implemented.

These matters are evidence of weaknesses in arrangements for prioritising resources and improving efficiency and productivity.

In considering the Authority's arrangements for securing financial resilience we have identified the following matter:

- The settlement of equal pay claims is continuing to have a significant impact on the Authority’s financial resilience and the Authority needs to generate £359 million of savings by the end of 2017/18. The Improvement Panel has expressed concern relating to the slow progress made by the Authority in the development of its financial strategy. However, the Panel also recognised that the Authority had got back on track with the challenging delivery timetable. Detailed savings implementation plans are being developed but are not yet in place in all instances for 2015/16 and plans have not been developed for the majority of savings required in 2016/17.

This matter is evidence of weaknesses in arrangements for strategic financial planning.

**Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Birmingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Certificate**

We certify that we have completed the audit of the financial statements of Birmingham City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

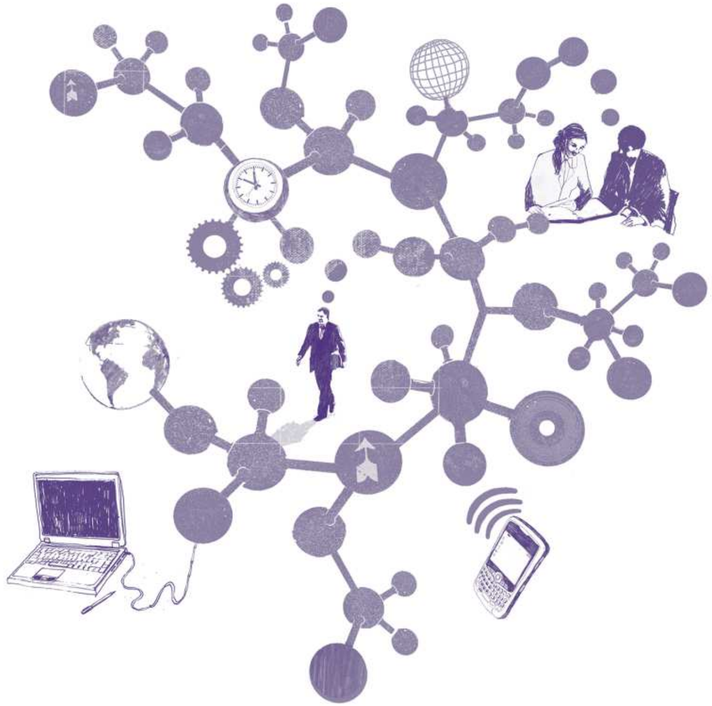
30th September 2015

Grant Thornton

# The Audit Findings for Birmingham City Council

**Year ended 31 March 2015**

September 2015

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# Section 1: Executive summary


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02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

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# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Birmingham City Council's (the Council) group and Council's financial statements for the year ended 31st March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan and presented to Audit Committee on 30th June 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- final review of our audit work and follow up of any points arising;
- review of the final version of the financial statements;
- obtaining and reviewing the final management letter of representation;

## Financial statement production

We received draft financial statements by the statutory deadline of 30th June 2015. It is pleasing to report that this is the second year that the accounts have been delivered on time and we are grateful to the Financial Accounts Team for their hard work and support throughout the audit. We will continue to work with the team to help embed the further process changes necessary to meet the earlier deadlines required in future.

## Key issues arising from our audit

**Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements, but intend to include an emphasis of matter paragraph in our opinion with regard to the Council's equal pay liability, due to the difficulties in accurately estimating equal pay liabilities.

The key messages arising from our audit of the Council's financial statements, including the group accounts concern the:

- accounting treatment of the NEC assets;
- the equal pay provision;
- the accounting treatment of Voluntary Aided, Voluntary Controlled and Foundation schools land and buildings; and
- consideration of the going concern assessment.

We also note that during the year the Council changed its bankers requiring changes to payments and receipts systems to be implemented and communicated to everyone the Council transacts with. This complex and high profile project was well managed and the transfer was implemented with minimal disruption to the Council's receipts and payments systems.

# Executive summary

**Accounting treatment of NEC assets**

The Council signed a contract for the sale of the NEC on 16th January 2015. Delivering this sale was a challenging and complex process for the Council and it is pleasing to report that it was well managed. It involved extensive engagement with stakeholders and other interested parties, and required a high level of internal and external support.

The sale agreement was subject to a three month period until the completion of the contract and transfer of assets to the purchaser on the 1st May 2015. The transaction was complex and broadly included the following:

- collapse of existing leases and granting of 125 year leases for assets on the NEC site and 25 year leases for the Barclaycard Arena and International Convention Centre;
- retention of the Council's ownership of NEC Developments, after leases relating to Halls 17 to 20 and loan stock of £192 million were transferred to NEC Limited;
- restructuring of NEC Limited debt, replacing the loan stock (debentures) with an equivalent value of equity, transferred to the purchaser;
- lease back to the Council of the two hotels on the NEC site;
- retention of the pension liability by the Council in the closed NEC defined benefit pension schemes; and
- a 'locked box' agreement relating to the NEC's trading income from 1st April 2014 to the 30th April 2015.

At 31st March 2015, although the contract to sell the NEC had been signed the transaction had not been completed. We agreed with the Council's view that assets and liabilities relating to the NEC should be included on the Council's balance sheet in accordance with accounting standards.

The disclosure requirements for this unique transaction in the 2014/15 accounts are complicated and dependent on interpreting financial reporting standards relating to assets held for sale and financial instruments. We reviewed the accounting disclosures in the draft accounts and challenged the following items.

- The inclusion of the £192 million of NEC loan stock (debentures) as assets held for sale in the Council's single entity balance sheet (note 27). Our conclusion was that as these are financial instruments they should not be disclosed as assets held for sale, but as short term investments.

- The inclusion of a £17 million adjustment to the value of assets held for sale in the group accounts to reconcile the value of assets disposed of to the NEC loan stock value. Our conclusion was that this was not appropriate.

We discussed these issues with the Director of Finance and agreed that both the single entity and group balance sheets should be amended.

**Equal pay**

The audited accounts include a provision for the Council's equal pay liability of £562 million (note 32), a decrease of £77 million compared to the 2013/14 accounts. This is the second year that the equal pay liability has decreased and reflects both the settlement of claims and the reduction in the volume of new claims. However, equal pay continues to be a major financial liability for the Council.

The accounting policy adopted by the Council is to recognise a provision for equal pay on receipt of a valid claim. Potential future claims are treated as a contingent liability. A significant number of variables impact the number and value of future claims. We have included an emphasis of matter  paragraph in our proposed audit opinion. This draws the readers' attention to the point at which claims are recognised and the variables impacting on the valuation of the equal pay liability. It is not a qualification of the audit opinion.

# Executive summary

**Accounting treatment of voluntary aided and voluntary controlled schools**
CIPFA's Local Authority Accounting Panel (LAAP) issued Bulletin 101 in December 2014 to clarify the appropriate accounting treatment of voluntary aided, voluntary controlled and foundation schools (VA/VC/FS) schools. As typically a local authority does not own either the land or buildings relating to these schools the key issue is whether these assets should be included on their balance sheet or not.

The on or off balance sheet decision is dependent on a range of factors which need to be considered on a case by case basis. Unlike many other local authorities, the Council reviewed its accounting treatment of VA/VC/FS schools when it implemented IFRS. The conclusion was that this was a relationship that contained a lease and that buildings should be included on balance sheet and land should not.

The publication of LAAP Bulletin 101 required the Council to re-visit this decision. The Council concluded that although the original decision to include buildings on balance sheet still held, the exclusion of land may not be appropriate. Due to the Council's high volume of VA/VC/FS schools the review of all schools was not complete when the draft accounts were produced. All VA/VC land and buildings were included on the balance sheet. The inclusion of this land increased property plant and equipment by £207 million.

Our view is that land relating to VA/VC/FS schools should only be included on the Council's balance sheet in specific circumstances. Examples are where the Council has authority over both land and buildings use, or there are restrictive covenants in place which require the land to be used for education purposes in perpetuity.

The Council is taking a thorough approach to this issue and documentation for over 80 schools has been examined. On completion of this review land totalling £58 million was removed from the balance sheet value of property, plant and equipment. Our testing confirmed that this was appropriate. The Financial Accounts Team is planning to continue with this review to reduce the number of schools with insufficient evidence to support their accounting treatment. They anticipate that this will result in more land being included on the balance sheet.

**Consideration of the going concern assessment**
Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a local authority is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, its assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the local authority has the cash resources to meet its obligations as they fall due in the foreseeable future. This is usually considered to be a year after the date of issue of the audit opinion.

We have considered whether it is appropriate for the Council to prepare its accounts on a 'going concern' basis. In making our assessment we considered the Council's financial forecast for 2016/17 and the need for the Council to fund the claims made against it with regard to equal pay in 2015/16 and 2016/17. We have also considered the risk of the Council's level of borrowing and its pension liability.

If the Council does not generate the required savings or capital asset sales it will need to utilise both general fund and earmarked reserves to manage any revenue consequences. In terms of liquidity, the Council would need to increase its borrowing or reduce its short term lending to meet its cash requirements. It may also need to consider delaying equal pay settlements.

On the basis of our review we are satisfied that the Council remains a 'going concern'.



 

# Executive summary

We consider that the Council's ability to meet its statutory financial duties and our assessment of the Council as a 'going concern' is dependent on both the delivery of its savings plans and the asset sales highlighted above. This is a 'significant judgement' under accounting standards and has been included within the relevant note to the financial statements.

We have requested representations from the Council with regard to 'going concern' on the following aspects:

- the Council considers that it remains a 'going concern'
- the Council has considered the need to generate capital receipts and is satisfied that it has appropriate plans in place to generate sufficient capital receipts in 2015/16 and 2016/17

Further details of audit opinion work is set out in section two of this report.

**Value for Money conclusion**

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'except for' Value for Money conclusion.

- The Secretary of State's appointment of an Improvement Panel
- The need for further improvements in the Council's arrangements for ensuring the effectiveness of its arrangements for children in need of help and protection, children looked after and care leavers
- The need for further improvement in the Council's governance arrangements to oversee the management of schools within the City
- The impact of equal pay claim settlements and the savings requirement of £359 million over the next three years.

Further detail of our work on Value for Money is set out in section three of this report.

**Whole of Government Accounts (WGA)**

The Council submitted its WGA return by the required deadline. Our audit work is in progress and we anticipate completing our work in accordance with the national timetable.

## Controls

**Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We reported in our audit plan that there is a potentially material control issue relating to unauthorised journals input by senior staff. A compensating journal control has been introduced which requires a review of a monthly sample of unauthorised journals entered by senior staff to ensure journals are valid and accurate.

Group accounts have been produced from unaudited accounts for all the group entities included in the consolidated balance sheet. At the time of drafting this report no audited accounts had been received by the Financial Accounts Team. We repeat our recommendation from our 2013/14 audit that the Audit Committee needs to ensure that unaudited accounts are delivered by the end of May and audited accounts before the completion of the Council's audit.

The financial statements include a prior period adjustment of £27 million relating to the previous misposting of schools capital expenditure to revenue. Our audit testing has identified further mispostings of capital items. We have concluded that improvements are required in the accuracy of capital postings.

Further details are provided within section two of this report.

**The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance.

**Grant Thornton UK LLP**
**September 2015**



 

# Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non-audit services and independence
05. Communication of audit matters

# Audit findings

We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 30th June 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

## Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 30th June 2015.

## Audit opinion

Our proposed audit opinion is set out in Appendix B.



 

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 1. | **Improper revenue recognition**<br>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition | • Reviewed and tested revenue recognition policies<br>• Tested of material revenue streams<br>• Reviewed unusual significant transactions | Our audit work has not identified any issues in respect of revenue recognition. |
| 2. | **Management override of controls**<br>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls | • Reviewed accounting estimates, judgements and decisions made by management<br>• Tested journal entries<br>• Reviewed unusual significant transactions | Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.<br>We set out later in this section of the report our work and findings on key accounting estimates and judgements. |

# Audit findings against significant risks (continued)

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 3. | **Equal Pay Provision**<br>Under ISA 540 (Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty gives rise to a significant risk. | • Reviewed the key assumptions underpinning the provision<br>• Reviewed the agreements reached with claimants representatives<br>• Reviewed the provision made for PAYE and NI, and requested and received evidence to support the continued use of the composite tax rate<br>• Reviewed the provision made for overtime<br>• Sample tested the calculation of the provision<br>• Reviewed the disclosures in the accounts. We note that the Council has not disclosed an amount for contingent liabilities or the timing of future cash flows as it is felt this would prejudice the Council's interest<br>• Considered the impact of the future settlement cash flows on the current value of the provision<br>• Considered and concluded that it is appropriate for the receipt of a claim to be used as the point at which equal pay liabilities are recognised as a provision | Our audit plan identified that there was potentially a high level of estimation uncertainty with respect to the £562 million provision in the accounts.<br>We noted that estimated future cash flows relating to the provision have not been discounted and we are satisfied that the Council's assessment that this would not be material is reasonable.<br>The impact of claims received since 31st March 2015 was also assessed.<br>On the basis of our work, we concluded that the level of estimation uncertainty does not present material uncertainty in the accounts.<br>The Council recognises equal pay claims and estimates the potential cost when they are received. It does not forecast future claims on the basis that a significant number of variables impact on the number and value of future claims. We have concluded that (given the information available) this recognition point is appropriate. However, we have included an 'emphasis of matter' in our draft opinion. This emphasises the potential for future Equal Pay costs to significantly vary (either upwards or downwards) from that estimated in the accounts due to the variability of the factors impacting on the value of the claim. This is not a modified opinion. |



 

# Audit findings against significant risks (continued)

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 4. | **Sale of the NEC**<br>Risk that complex accounting entries required are not correctly performed. | • Obtained an understanding of the nature and timing of the sale transaction<br>• Considered the accounting treatment of NEC assets and liabilities in the single entity and group accounts<br>• Agreed the carrying value of land and buildings to supporting valuations | At the 31st March 2015, although the contract to sell the NEC had been signed the transaction had not been completed. We agreed with the Council's view that assets and liabilities relating to the NEC should be included on both the Council's single entity balance sheet and group balance sheet.<br>We considered the inclusion of the £192 million of NEC loan stock (debentures) as assets held for sale in the Council's single entity balance sheet (note 27). Our conclusion was that as these are financial instruments they should not be disclosed as an asset held for sale, but as short term investments. However, due to the subsequent conversion of the debentures to equity sold to the purchaser, financial reporting standards require additional disclosures to be made.<br>We considered the inclusion of a £17 million adjustment in the value of assets held for sale in the group account s (note G8). The draft accounts included all the assets and liabilities included in the NEC sale transaction as assets held for sale. To reconcile the carrying value in the group accounts to the single entity value including NEC loan stock a £17 million adjustment was included. Our conclusion was that this adjustment was not appropriate. |



 

# Audit findings against significant risks (continued)

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|---|---|---|---|
| 5. | **Cash – transfer of bank accounts**<br>The Council transferred its bank accounts during the financial year. This was a complex process which raised a significant risk that all accounts had not been identified or correctly transferred. | • Reviewed the project and actions to date in relation to bank account transfers<br>• Substantively tested accounts within the cash cycle.<br>• Considered events or conditions that have occurred that could have affected the transfer process. | This complex and high profile project was well managed and the transfer was implemented with minimal disruption to the Council's receipts and payments systems.<br>Our testing did not indicate that there was a high level of residual risk to the cash balances included in the accounts. |



 

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Employee remuneration** | Employee remuneration accrual understated | We have undertaken the following work in relation to this risk:<br>• updated our documentation of the payroll system<br>• undertaken a walkthrough of the controls in place to ensure payroll expenses are not understated and are recorded in the correct period.<br>• undertaken a monthly trend analysis for the financial year.<br>• reconciled the annual payroll to the ledger and to the segmental analysis accounts note.<br>• undertaken substantive testing of payroll payments in April and May to ensure payroll expenditure is recorded in the correct year.<br>• reviewed payroll accrual processes and determined whether substantive testing required.<br>• undertaken substantive testing of the completeness of year end payroll creditors<br>• undertaken substantive testing of the completeness of IAS19 pension liabilities.<br>• agreed employee remuneration disclosures in the financial statements to supporting evidence. | Our audit work has not identified any significant issues in relation to the risk identified, and we are satisfied that in all material respects employee remuneration has been appropriately accounted for. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Operating expenses** | Creditors understated or not recorded in the correct period | We have undertaken the following work in relation to this risk:<br>• updated our documentation of the operating expenditure system<br>• undertaken a walkthrough of the controls in place to ensure operating expenses are not understated and are recorded in the correct period.<br>• carried out substantive testing of operating expenditure<br>• reviewed the application of the year end closedown process for capturing creditor accruals<br>• undertaken substantive testing of year end creditors including after date payments<br>• tested Goods Received Not Invoiced listings and Purchase Orders raised after the year end to confirm appropriate accruals<br>• reviewed control account reconciliations covering the agreement of creditor payments to the ledger and bank accounts | Our audit work has not identified any significant issues in relation to the risk identified, and we are satisfied that in all material respects operating expenditure has been appropriately accounted for. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Welfare expenditure** | Welfare benefit expenditure improperly computed | We have undertaken the following work in relation to this risk:<br>• a predictive analytical review based on DWP statistics<br>• initial testing of benefit expenditure by following the Audit Commission HBCOUNT methodology.<br>• reviewed the reconciliation between Benefits system and general ledger | Our audit work has not identified any significant issues in relation to the risk identified, and we are satisfied that in all material respects welfare expenditure has been appropriately accounted for. |
| **Property plant and equipment** | Risk that property plant and equipment is improperly expensed | We have undertaken the following work in relation to this risk:<br>• updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.<br>• tested a sample of repairs and maintenance items to ensure they are properly expensed to the revenue account. | Our audit work has not identified any significant issues in relation to the risk identified, and we are satisfied that in all material respects property plant and equipment has been appropriately expensed in the accounts. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Property plant and equipment** | Risk that property plant and equipment activity is not valid. | We have undertaken the following work in relation to this risk:<br>• updated our documentation  and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid.<br>• tested the agreement of the fixed asset register to the accounts and supporting notes<br>• sample tested PPE additions and disposals including compliance with capitalisation requirements | Our audit work has not identified any significant issues in relation to the risk identified.<br>Our testing of assets disposed of in the year found two assets that were identified as being disposed of on long leases. Supporting documentation showed that the leases had been granted in prior years and the items were incorrectly included on RAM. We also identified one building that was demolished in 2013/14, but not eliminated from RAM until 2014/15.<br>Schools Devolved Formula Capital (DFC) funding is recognised as capital additions when schools inform the finance team that it has been been spent. It is automatically recognised as 'buildings' but we found examples of it being spent on other items such as equipment. The total value of DFC applied in year was £3 million so we are satisfied there is no material risk to the accounts.<br>[Recommendation1] |



 

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Property plant and equipment** | Risk that property plant and equipment activity is not valid (continued) | We have undertaken the following work in relation to this risk:<br>• updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid<br>• tested the agreement of the fixed asset register to the accounts and supporting notes<br>• sample tested PPE additions and disposals including compliance with capitalisation requirements | Our additions testing included two items being paid for on an instalment basis. An item was found to be incorrectly treated and should be treated as a payment in advance (£3.3 million). Further investigation by the Financial Accounts team has not identified any further errors of this nature.<br>We also found instances where expenditure had been incorrectly classified. We are satisfied that this does not present a material risk to the accounts.<br>[Recommendation 2] |
| **Property plant and equipment** | Risk that revaluation measurement is not correct | We have undertaken the following work in relation to this risk:<br>• updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid<br>• tested the revaluation cycle, including instructions to valuer and valuer's report.<br>• evaluated compliance with revised requirements of the Code for valuation particularly in relation to schools<br>• Test of revaluation when assets brought in to use | Our audit work has not identified any significant issues in relation to the risk identified.<br>The valuers report for both HRA and General Fund land and buildings is dated 1st April 2014, but has been accounted for as if the valuation was at 31st March 2015. The valuer reviewed the potential movement in values during the year. We are satisfied that there is no material impact on the carrying value of assets.<br>See also our review of issues raised in prior year in the accounting policies, estimates and judgements section. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Property plant and equipment** | Risk that revaluation measurement is not correct (continued) | We have undertaken the following work in relation to this risk:<br>• updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid<br>• tested the revaluation cycle, including instructions to valuer and valuer's report.<br>• evaluated compliance with revised requirements of the Code for valuation particularly in relation to schools<br>• Test of revaluation when assets brought in to use | CIPFA's Local Authority Accounting Panel (LAAP) issued Bulletin 101 in December 2014 to clarify the appropriate accounting treatment of voluntary aided and voluntary controlled (VA/VC/FS) schools. The publication of LAAP Bulletin 101 required the Council to re-visit this decision. It was concluded that although the original decision to include buildings on balance sheet still held, the exclusion of land may not be appropriate. Due to the Council's high volume of VA/VC/FS schools the review of all schools was not complete when the draft accounts were produced. All VA/VC schools' land and buildings were included on the balance sheet. This increased property plant and equipment by £207 million.<br>Our view is that land relating to VA/VC/FS schools should only be included on the Council's balance sheet in exceptional circumstances. Examples are where the Council has authority over both land and buildings use, or there are restrictive covenants in place which require the land to be used for education purposes in perpetuity.<br>The Council is taking a thorough approach to this issue and documentation for over 80 schools has been examined. We found that land valued at £12 million had evidence of restrictive covenants, but the details were not available. The Council has assumed that these covenants will be similar to other schools in the population. We have not challenged this.<br>On completion of the review the Council adjusted the accounts to remove £58 million of land from the balance sheet value of property, plant and equipment. |

# Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|---|---|---|
| **Property plant and equipment** | Risk that property plant and equipment allowance for depreciation is not adequate. | We have undertaken the following work in relation to this risk:<br>• updated our documentation and undertaken a walkthrough of the controls in place to ensure that PPE activity is valid<br>• tested depreciation and impairments, including evidence of review of Useful Economic Lives and mathematical accuracy<br>• tested the surplus or deficit on disposal | Our audit work has not identified any significant issues in relation to the risk identified. |

# Group audit scope and risk assessment

ISA 600 requires that as Group auditors we 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 | Significant? | Level of response required under ISA 600 | Significant and other risks identified | Work completed | Assurance gained & issues raised |
|---|---|---|---|---|---|
| NEC Group Ltd | Yes | Targeted | Valuation of assets | Specific (targeted) scope procedures performed by non GT member firm (Price Waterhouse Coopers) | Our audit work has not identified any material issues, but audited accounts were not available. |
| NEC (Developments) PLC | No | Analytical | Valuation of assets | Desktop review performed by Grant Thornton | Our audit work has not identified any material issues, but audited accounts were not available. |
| Acivico Limited | Yes | Targeted | None | Specific (targeted) scope procedures performed by non GT member firm (KPMG) | Our audit work has not identified any material issues, but audited accounts were not available. |
| Birmingham Technology Ltd | No | Analytical | None | Desktop review performed by Grant Thornton | Our audit work has not identified any material issues, but audited accounts were not available. |
| Performances (Birmingham) Ltd | No | Analytical | None | Desktop review performed by Grant Thornton | Our audit work has not identified any material issues, but audited accounts were not available. |
| Birmingham Museum and Art Gallery Trust | No | Analytical | None | Desktop review performed by Grant Thornton | Our audit work has not identified any material issues, but audited accounts were not available. |
| Service Birmingham Ltd | No | Analytical | None | Desktop review performed by Grant Thornton | Our audit work has not identified any material issues, but audited accounts were not available. |

# Group audit scope and risk assessment (continued)

We also draw the Audit Committee's attention to the following group audit issues.

**Delivery of accounts**
Further improvements are needed in the timely delivery of component bodies draft and audited accounts. We raised this issue in our report last year and although delivery improved for some entities, there were still late submissions. Earlier submission of draft and audited accounts will need to be agreed for the Council to meet earlier reporting deadlines. [Recommendation 3]

At the time of drafting this report audited accounts had not been provided for NEC Limited or Acivico. Auditors' reports has recently been provided for both companies and we will update the Audit Committee if there are any issues arising.

**Presentation and disclosure of accounts**
There was an unexpectedly high volume of presentational and disclosure errors in the group accounts presented for audit. This is in part a consequence of the delays experienced in obtaining appropriate draft accounts from component bodies. Group accounts need to be adequately reviewed before being presented for audit. [Recommendation 4]

**Supporting working papers**
We agreed that the supporting working papers would not be provided on 30th June as we recognised that delays in draft accounts had delayed completion of the group financial statements. However, working papers supporting the group accounts will need to be provided more promptly in future. [Recommendation 4]

**Other issues**
Foreword to the Accounts (paragraph 2.1). The narrative refers to the deminimis for inclusion of subsidiary and associate companies in the group accounts. In our view it would be good practice to disclose the value of the deminimis.

Group Cash Flow Statement. The draft accounts did not include notes detailing the following entries on the face of the Group CF Statement:
- adjustments to net surplus / deficit on the provision of services for non-cash movements
- adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities

Although not required by the Code in our view it would be good practice to include these.

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Revenue recognition** | The Council has adopted the following revenue recognition policy<br>• The revenue accounts are maintained on an accruals basis (subject to a de-minimis of £5,000 with some exceptions). Expenditure is charged to the revenue accounts in the period in which goods and services are received and, similarly, income is credited in the period in which it falls due, regardless of the timing of cash payments or receipts.<br>• Interest due to or from third parties in relation to loans and investments, is accrued in full at the year end on the basis of the effective rate of interest.<br>• Provision is made for the impairment of debts in the General Fund and Housing Revenue Accounts.<br>• Where income and expenditure have been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recognised on the Balance Sheet. Where debts may not be settled and it is likely that collection of such debt is doubtful, the balance of the debt is written down and a charge is made to revenue for the income that may not be collectable. | We are satisfied that the Council's disclosure note on revenue recognition is adequate and is consistent with the requirements of the CIPFA Code of Practice on Local Authority Accounting | ● Green |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Estimates and judgements** | Key estimates and judgements include<br>• The required level of Provisions, specifically with respect to Equal Pay liabilities and Business Rates valuation appeals<br>• the valuation, impairment and remaining useful life of Property Plant and Equipment | Our findings from our review of judgements and estimates are set out below:<br>We have reviewed the Council's accounting policies with regard to judgements and estimates and are satisfied that they are appropriate and in accordance with the recommendations of the CIPFA Code of Practice on Local Authority Accounting.<br>Our consideration of the equal pay provision is summarised under "audit findings significant risks" on page 12<br>Note 30 Provisions includes a £22 million provision for business rate valuation appeals. The settlement of business rate valuation appeals is determined by the Valuation Office Agency (VOA). We reviewed the Council's approach to estimating its provision including its consideration of the impact of the settlement of appeals since the balance sheet date. We are satisfied that the estimate has been made on a reasonable basis.<br>Our consideration of property plant and equipment valuations issues is considered under "review of issues raised in prior year" on page 28.<br>[Recommendation 5] | Amber |

**Assessment**
- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates & judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Estimates and judgements** | Key estimates and judgements include<br>• The assessment of PFI schemes and other arrangements as to whether they fall within the scope of IFRIC 12.<br>• The valuation of long term liabilities for PFI and leasing<br>• The present value of pension obligations<br>• The estimate of provision required for bad debts | Our findings from our review of judgements and estimates are set out below:<br>The Council has a number of PFI schemes. The finance liability is disclosed in the balance sheet at £459 million. Revenue and interests payments are also disclosed in Note 43. We are satisfied that  the PFI liabilities are consistent with the Council's financial models and that the allocation between interest, service and capital repayments is materially correct.<br>The Council's estimated pension liability has increased by £489 million compared to the 2013/14 balance sheet. This change is largely due to the actuaries reassessment of the Council's future pension liability.<br>We reported in our 2013/14 Audit Findings report that there was a risk that the Council Tax bad debt provision was understated. We are satisfied that the 2014/15 provision is calculated on a consistent basis, but repeat our view that there is an under statement risk. | ● Amber |

**Assessment**
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient



 

# Accounting policies, estimates & judgements (continued)

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Estimates and judgements – going concern** | Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business.<br><br>A key consideration of going concern is that the council has the cash resources to meet its obligations as they fall due in the foreseeable future. This is usually considered to be a year after the date of issue of the audit opinion. | We have considered whether it is appropriate for the Council to prepare its accounts on a 'going concern' basis. In making our assessment we considered the Council's financial forecast for 2016/17 and the need for the Council to fund the claims made against it with regard to equal pay in 2015/16 and 2016/17. We have also considered the risk of the Council's level of borrowing and its pension liability.<br><br>If the Council does not generate the required savings or capital asset sales it will need to utilise both general fund and earmarked reserves to manage any revenue consequences. In terms of liquidity, the Council would need to increase its borrowing or reduce its short term lending to meet its cash requirements. It may also need to consider delaying equal pay settlements.<br><br>On the basis of our review we are satisfied that the Council remains a 'going concern'. | ● Amber |

**Assessment**
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

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# Accounting policies, Estimates & Judgements– review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|---|
| 1. | ✓ | **Estimates and judgements - Property, Plant & Equipment**<br><br>In previous years the Council carried out a rolling programme of revaluations, with the date of the valuations varying up to five years. This approach was similar to many other authorities and you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.<br><br>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:<br>• the revaluation of the class of assets is completed within a 'short period'<br>• the revaluations are kept up to date.<br><br>We would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. | Page 87 of the accounts sets out the Council's rolling programme of revaluations. This explains that 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. The supporting table shows that £1,657 million of the land and building assets included on the balance sheet have valuation of more than a year old and £605 million are supported by valuations that are five years old.<br><br>We reported last year that that the Council's approach to the revaluation of its property plant and equipment is not fully in line with the Code. The Code requires the revaluation of each class of assets to be completed within a 'short period' (which in our view, is a single financial year). The Council's view is that this is not practical due to the size of its asset base.<br><br>CIPFA LAAP Bulletin 103 was published after the Code and clarifies that a 'short period' is five years.<br><br>We have reviewed the analysis supporting the valuers consideration of the potential valuation changes since the last valuation date. We are satisfied that this demonstrates that there is a low risk of material misstatement. |

**Assessment**
✓ Action completed
X Not yet addressed



 

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|---|---|---|
| 1. | **Matters in relation to fraud** | • We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit. |
| 2. | **Matters in relation to laws and regulations** | • We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. | **Written representations** | A letter of representation has been requested from the Council that includes specific representations on:<br>• Confirmation of the Council's view that the receipt of the claim is the appropriate point to recognise a liability for equal pay<br>• Confirmation of the Council's view that it is not possible to accurately estimate the volume, type or value of future equal pay claims<br>• Confirmation that the equal pay liability does not impact on the assertion that the Council remains a going concern<br>• Fair values of Property, Plant and Equipment, and the Equal Pay provision<br>• Consideration of onerous contracts for Academy Schools with a PFI agreement in place at the transfer<br>• Confirmation that the Council holds no investment properties other than those disclosed on the balance sheet<br>• Confirmation that there are no further issues requiring section five of the Annual Governance Statement to be amended<br>• Confirmation that the Council does not consider that it needs to make additional provision for uncollected Council Tax debt<br>• The Council considers that it remains a 'going concern'<br>• The Council has considered the need to generate capital receipts and is satisfied that it has appropriate plans in place to generate sufficient capital receipts in 2015/16 and 2016/17<br>• As contractual arrangements are not in place the Council confirms that it has adequate plans in place to generate the forecast capital receipts<br>• If the Council is unable to generate sufficient capital receipts to meet its equal pay liabilities it could either defer the payments or utilise reserves<br>• The Council is satisfied that it will be able to deliver sufficient savings or utilise reserves to enable it to meet its 'financial duties'. |

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| | Issue | Commentary |
|---|---|---|
| **4.** | **Disclosures** | • Our review found no non-trivial omissions in the financial statements. We have summarised the disclosure omissions on pages 35 to 37. |
| **5.** | **Matters in relation to related parties** | • We are not aware of any related party transactions which have not been disclosed. |
| **6.** | **Confirmation requests from third parties** | • We sought direct confirmations for all material and a sample of non-material loans. At the time of drafting this report we had not received confirmations from State St Nominees Limited.<br>• We also requested from management permission to send confirmation requests for bank and all material and a sample of non-material investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. |

# Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses, Welfare Expenditure and Property, Plant and Equipment.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| | Assessment | Issue and risk | Actions and Recommendations |
|---|---|---|---|
| 1. | ● | We reported in our audit plan that there is a potentially material control issue relating to unauthorised journals input by senior staff with authoriser permissions. | A compensating journal control has been introduced requires review of a monthly sample of unauthorised journals entered by senior staff to ensure journals are valid and accurate. |
| 2. | ● | We made five recommendations following review of general IT controls. One of these, relating to access controls was a potential significant deficiency and repeated our 2013/14 recommendation. | Management responded with a proposal to conduct a review of the relevant controls. |
| 3. | ● | Group accounts have been produced from unaudited accounts for all the group entities included in the consolidated balance sheet. At the time of drafting this report no audited accounts had been received by the Financial Accounts Team. | The Audit Committee needs to ensure that unaudited accounts are delivered by the end of May and audited accounts before the completion of the Council's audit.<br>[Recommendation 3] |

**Assessment**

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.



 

# Internal controls (continued)

| | Assessment | Issue and risk | Actions and Recommendations |
|---|---|---|---|
| 4. | ● | The financial statements include a prior period adjustment of £27 million relating to the previous misposting of schools capital expenditure to revenue. Our audit testing has identified further mispostings of capital items | Management need to review controls over posting of capital expenditure to ensure accuracy.<br>[Recommendations 1 and 2] |

**Assessment**

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

# Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| | Detail | Comprehensive Income and Expenditure Account £m | Balance Sheet £m | Impact on total net expenditure £m |
|---|---|---|---|---|
| 1 | Reanalysis of NEC debentures<br>- Assets Held for Sale<br>- Short term Investments | Nil | (192)<br>192 | Nil |
| 2 | Removal of VA/VC schools from balance sheet due to insufficient evidence to support the accounting treatment<br>- Property Plant and Equipment<br>- Unusable reserves (Capital Adjustment Account reserve) | Nil | (58)<br>58 | Nil |
| 3 | Restatement of instalment payments<br>- Property Plant and Equipment<br>- Debtors (payments in advance) | Nil | (3)<br>3 | Nil |
| 4 | Restatement of NEC shares to historic cost<br>- Assets Held for Sale<br>- Unusable reserves (available for sale financial instruments reserve) | Nil | (5)<br>5 | Nil |
| | **Overall impact on single entity accounts** | **Nil** | **£258** | **Nil** |

# Adjusted misstatements (continued)

| | Detail | Comprehensive Income and Expenditure Account £m | Balance Sheet £m | Impact on total net expenditure £m |
|---|---|---|---|---|
| 5 | Property Plant and Equipment<br>- Assets Held for Sale<br>- Revaluation reserve | <br>Nil | <br>(17)<br>17 | <br>Nil |
| | **Overall impact on group accounts** | **Nil** | **£17** | **Nil** |



 

# Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and whether they have been made in the final set of financial statements.

| | Item | Issue | Amended |
|---|---|---|---|
| 1 | Foreword to the Accounts (paragraph 7.4.) | Accounting for Schools Non Current Assets<br>Further clarification should be included in the narration to include the fact that schools have been reviewed on a case by case basis. | Yes |
| 2 | Note 3 Critical Judgements in Applying Accounting Policies | Schools<br>Narrative on LAAP Bulletin 101 should include reference to the Code and state that there has been a case by case review. | Yes |
| 3 | Note 3 Critical Judgements in Applying Accounting Policies<br>Note 45 Officers' Remuneration | Schools<br>In our view inclusion of employees of voluntary aided and foundation trust schools in Note 45 does not comply with accounting standards. Remuneration disclosures are stipulated by legislation. Where the authority is not the employer (and the person is not the employee of the authority), their contract of employment takes precedence in the disclosures even though these costs will be included in the single entity Comprehensive Income and Expenditure Statement. | No |
| 4 | Note 6 Events After the Reporting Period | NEC Group<br>The narrative should include a clear summary of what has been sold and the value of the receipt generated. | Yes |
| 5 | Note 6 Events After the Reporting Period | The note should be updated to include relevant issues that have emerged since the accounts were presented for audit. These include:<br>- the potential impact of the 1 per cent reduction in social housing rents announced by the Chancellor on 8th July<br>- an update on progress with the West Midlands Combined Authority bid | Yes |

# Misclassifications & disclosure changes

| | Item | Issue | Amended |
|---|---|---|---|
| 6 | Note 20 Amounts Reported for Resource Allocation Decisions (Segmental Analysis) | Reconciliation to Subjective Analysis<br>Incorrectly included £11.5 million of equal pay costs in the depreciation, amortisation and impairment line which should be disclosed in the employee expenses line | Yes |
| 7 | Note 21 Property Plant and Equipment | Revaluations<br>Details should be included for the valuers of Tyseley Waste as this is not included by Birmingham Property Services valuation. | Yes |
| 8 | Note 33 Contingent Liabilities and Contingent Assets | Item 4 – Equal Pay<br>The Council has not disclosed an amount for this contingent liability or the timing of future cash flows. We are aware of the sensitivities and the difficulties in estimating the volume and type of future claims. The disclosure made is consistent with previous years. | No |
| 9 | Note 33 Contingent Liabilities and Contingent Assets | Item 6 – Network Rail<br>The Council has not disclosed an amount for this contingent liability or the timing of future cash flows. Management's view is that of any disclosure would impair its negotiating position with Network Rail should overruns occur. | No |
| 10 | Note 33 Contingent Liabilities and Contingent Assets | Item 7 – Claims from Former Employees and Others<br>The Council has not disclosed an amount for this contingent liability or the timing of future cash flows. Management's view is that of any disclosure would prejudice the Council's interests. | No |
| 11 | Note 39 Financial Instruments | Income, Expenses, Gains and Losses<br>In the table 'Total income in (Surplus)/Deficit on the Provision of Services' should be shown as £(22.5) million. | Yes |
| 12 | Note 40 Nature and Extent of Risks Arising from Financial Instruments | Market Risk<br>Narrative includes reference to the NEC debenture loan stock, which was disposed of as part of the NEC sale transaction. | Yes |

# Misclassifications & disclosure changes

| | Item | Issue | Amended |
|---|---|---|---|
| 13 | Group Accounts – Foreword to the Accounts (paragraph 4.3) | The Main Financial Statements<br>The narrative explains that the reduction of £417 million in the net cost of services is in part due to £276 million reduction in the Council's net cost of services. It also needs to also provide an explanation for the remaining £141 million movement. | No |
| 14 | Group Accounts – Note G24 Associate and Joint Venture Companies | Birmingham Airport Holdings Ltd (BAH)<br>Disclosures in the final paragraph should be as follows:-<br>*Share of investments in Associates and JV of £38.9m (2013/14 : £51.7m) shown in the Group BS in respect of this entity is £37.2m (2013/14 £49.4m).*<br>2012/13 and 2013/14 figures have been incorrectly used. | Yes |

# Section 3: Value for Money


01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**The Council has proper arrangements in place for securing financial resilience -** the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness -** the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

The settlement of equal pay claims continues to have a negative impact on the Council's financial resilience. Although the volume of new claims has now reduced significantly the cumulative equal pay liability (in the unaudited accounts) as at 31st March 2015 was £562 million. The Council has generated significant capital receipts to settle its equal pay liability, but still needs to generate more. It continues to be heavily reliant on the sale of major assets to meet these payments and to manage its cash and revenue position.

The Council continues to face a major financial challenge, with further savings of £359 million needing to be delivered by the end of 2017/18. Although the track record of savings delivery is good, it is clearly increasingly difficult to make the scale of savings required. Responding to the Council's financial challenge is a key part of the Future Council Programme, with a fundamental re-think of the Council's operating model and savings plans.

The Improvement Panel reported that it was concerned about slow progress being made to develop the financial strategy to deliver a balanced financial position in the period up to 2017/18. However, the Panel also recognised that the Council is taking a thorough and professional approach to the development of its financial strategy and that it had recently got back on track with the challenging delivery timetable. We have considered the development of savings plans over the next two financial years. For 2015/16 the Council has a savings requirement of £105 million and detailed implementation plans are not yet in place in all instances. The annual savings requirement increases to £167 million for 2016/17 and plans have not yet been developed for the majority of this.

The level of overall borrowing (£3.3 billion) continues to be very high. General reserves have increased by £52 million but still only provide the Council with limited capacity to deal with overspends and delays in delivering savings.

# Value for Money

**Challenging economy, efficiency and effectiveness**

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

We continue to be concerned with regard to some aspects of the Council's arrangements to challenge economy, efficiency and effectiveness and intend to issue a qualified value for money conclusion with respect to the following.

**Responding to the Kerslake Report and the Improvement Panel**

The Secretary of States decision to appoint an Improvement Panel is indicative of the scale of concerns identified by Sir Bob Kerslake's report. The Panel has so far issued two progress reports and held two public meetings.

The Council is re-shaping itself through its Future Council Programme as it responds to the issues identified by Sir Bob Kerslake's report. The Programme is very ambitious in both its scope and scale and is recognised by the Improvement Panel as an appropriate approach to delivering change. In its July 2015 report the Panel commended the "energy and commitment demonstrated by the Chief Executive and his team". The Panel, however concluded that it was "not yet seeing the radical shifts necessary to address the starkest of Lord Kerslake's criticisms relating to the Council's culture."

The Panel also expressed concerns about slow progress in three areas in particular; developing a City Partnership and an agreed vision for the City, securing sufficient senior management capacity to deliver the required changes, and developing the financial strategy.

**Arrangements for children in need of help and protection, children looked after and care leavers**

In May 2014 OFSTED reported that the most vulnerable children in Birmingham continue to be failed by the local authority and that there is an insufficient focus on children who need help and protection and who need to be cared for. A Children's Commissioner was appointed as part of the Secretary of State's response to this service failure with the primary purpose of overseeing the implementation of a single integrated plan. Lord Warner issued his final report in March 2015 and the improvement plan is now being implemented.

Services for vulnerable children continue to face significant challenges, not least of which is the recruitment and retention of social workers. Delivery of the improvement plan is closely monitored and managed by senior management and members.

**Governance arrangements to oversee the management of schools within the City**

Peter Clarke's report found significant failings in the Council's management of the governance of schools. As a result the Secretary of State appointed Sir Mike Tomlinson as Education Commissioner, to oversee the Council's implementation of improvements.

A Single Integrated Plan has been developed and is being implemented. Sir Mike Tomlinson continues to meet regularly with senior members and management to review progress. From September 2015 responsibility for school improvement has been handed over to the Birmingham Education Partnership (BEP). A Director of Schools Improvement has been appointed by the BEP but will not move on to a full time basis until January (interim arrangements are currently in place). Sir Mike Tomlinson's appointment has been extended to at least April 2016.

# Value for Money

### Overall VfM conclusion

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

- The appointment of the Improvement Panel and the concerns they have expressed.
- Although progress is being made in the implementation of improvements services for vulnerable children continue to be rated as inadequate by OFSTED.
- The Single Integrated Plan in response to the need to improve the management of school governance has been developed but has not yet been fully implemented.
- The settlement of equal pay claims and the scale of savings the Council needs to make in the next three years is having a significant impact on the Authority's financial resilience.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

| | |
|---|---|
| **Green** | Adequate arrangements |
| **Amber** | Adequate arrangements, with areas for development |
| **Red** | **Inadequate arrangements** |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Key indicators of financial performance** | The Council has a good record in delivering its savings plans, but needs to generate an additional £359 million of savings over the next three financial years. This is a significant challenge and the Council recognises that it requires major changes in how services are delivered. The Future Council programme is focusing on the response to this financial challenge.<br>The Council continues to have very high levels of borrowing (£3.3 billion).<br>General fund reserves have increased by £52 million but only provide the Council with limited capacity to deal with overspends and delays in delivering savings. This increase in reserves largely reflects the impact of changes to the Council's minimum revenue provision that were implemented in 2013/14.<br>In terms of liquidity the Council can continue to borrow short term funds or reduce its short term investments. However, any significant additional borrowing would increase its already high level of borrowing and increase revenue pressures.<br>The Council has generated significant capital receipts to settle its equal pay liability, but still needs to generate more. It continues to be heavily reliant on the sale of major assets to meet these payments and to manage its cash and revenue position. Delays in selling assets could present risk for the timely settlement of equal pay claims, however the Council has sufficient contingency to manage this in the short term.<br>The Council pension fund deficit has increased to £2.3 billion, due to changes in the actuaries assumptions estimating its future liabilities. The Council's contributions to correct this deficit continue to place a significant financial burden on its resources. However, it has built these costs into its medium term financial plan.<br>Due to the significant savings plan, high borrowing levels, continued equal pay payments and future pension costs we have rated this as 'red'. | **Red** |

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Strategic financial planning** | The Council's Medium Term Financial Strategy is documented in the Council Business Plan and Budget 2015+. The plan focuses on the Council's priorities, and is linked to the detailed savings plans. The plan includes key assumptions such as grant funding, workforce levels, fees and charges, and detailed savings plans.<br>The Council is developing its Future Council programme, which includes a fundamental review of the steps needed to re-shape the Council, including its financial strategy as part of its new operating model. Significant emphasis is being put on the effective communication of the financial challenge across the organisation and the need to respond to it. Two hundred and thirty 'cases for change' were submitted to the Future Council team from across the Council and are currently being appraised. It is intended that these will form a key part of future savings plans.<br>The Improvement Panel reported in July 2015 that although that the approach being taken to the long term financial strategy was "thorough and professional" it was concerned about the slow progress being made to develop the financial strategy to deliver a balanced financial position in the period up to 2017/18. However, the Panel also recognised that the Council had recently got back on track with the challenging delivery timetable.<br>We have considered the development of savings plans. For 2015/16 the Council has a savings requirement of £105 million and detailed implementation plans are not yet in place in all instances. The annual savings requirement increases to £167 million for 2016/17 and plans have not yet been developed for the majority of this.<br>Equal Pay continues to have an impact on the Council's financial position. As we have noted, although significant capital receipts have been generated, there is a continuing need to generate further capital receipts to meet agreed settlements.<br>Due to the financial challenge facing the Council, including the development of savings programmes, the concerns expressed about progress in developing the financial strategy and the continuing impact of settling equal pay clams we have assessed Strategic Financial Planning as an 'amber' risk. | **Amber** |

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Financial governance** | **Council services**<br>The Council continues to have effective financial governance arrangements in place. Its financial environment and its financial performance is understood at all levels of the organisation.<br>Revenue budget monitoring is reported to the Cabinet and Star Chamber throughout the year and provides a further level of challenge, alongside reviewing any impact on service performance.<br>This is supported by a detailed monthly review of savings plans by the Deputy Leader.<br>The Council has a good track record of delivering performance in line with budgets in recent years.<br>**Non-core services**<br>We have previously reported the need to strengthen the overarching governance arrangements for the Council's wider interests. This remains a risk and we have made recommendations that will ensure that appropriate governance arrangements are in place to address the overall financial risk presented by its group companies, partnerships and accountable body arrangements.<br>Due to the need for the Council to demonstrate that it is strengthening its broader financial governance arrangements with its group companies, partnerships and accountable body arrangements we have assessed financial governance as an 'amber' risk. | **Amber** |

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Financial control** | Budget setting, reporting and monitoring continue to be effective. The Council continues to have a good track record of achieving its overall savings targets and meeting its budget. The Council delivered savings of £98 million in 2014/15 and has a savings requirement of £105 million in 2015/16.<br><br>The Council has a comprehensive monitoring process using detailed trackers to oversee the delivery of its savings plans. The month 4 trackers for 2015/16 show that the Council has actions in place to fully achieve £78 million of savings. A further £9 million are identified as in year (non-recurrent) savings, £9 million are identified as at risk and the remaining £14 million of savings plans do not have actions in place and solutions have yet to be identified. There remains a risk to the delivery of the 2015/16 savings targets.<br><br>The Council continues to have sound financial systems to deliver effective financial reporting to its demanding standards and timetable. It also continues to have an effective internal audit function.<br><br>The 2014/15 accounts were presented for audit by 30th June 2015. The accounts were supported by comprehensive working papers and were subject to quality assurance. Some working papers, particularly those relating to group accounts were presented late in the audit process. Further improvements to the timeliness of the accounts production process are planned from 2015/16 onwards, in anticipation of revised statutory reporting requirements.<br><br>Due to the continuing need for the Council to demonstrate delivery of its planned savings programme we have assessed financial control as 'amber'. | **Amber** |

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Prioritising resources** | The Council is reviewing its arrangements for prioritising resources through the Future Council Programme. Six key streams have been identified and are being worked on; the Council's future vision and values, developing the operating model, changing workforce management, the role of elected members, inclusive approaches to partnership working and improving the efficiency of support services.<br>The Council has made a significant resource commitment to the Future Council Programme with staff seconded on a full time basis to it and the appointment of an Interim Director for Service Delivery. Additional revenue funding has been secured from the government to support the Programme.<br>The Improvement Panel has commented that the design and implementation of the Future Council programme in particular is seen to demonstrate a positive and committed approach to the changes that are needed.<br>The Panel has, however, noted that there are key risks and challenges. It has expressed concern relating to slow progress in developing a City Partnership and an agreed vision for the City, and securing the senior management capability required for the size of the Council and the scale of the task it faces.<br>The Council is responding to these issues and the Panel is due to issue its second progress report to the Secretary of State in October.<br>Due to the scale of change needed in the way the Council prioritises its resources and the need for it demonstrate that it is responding effectively to the Improvement Panel's concerns we have assessed prioritising resources as 'amber'. | **Amber** |

| Theme | Summary findings | RAG rating |
|---|---|---|
| **Improving efficiency & productivity** | We have considered the effectiveness of key services during the last year and noted the following two discrete areas, services for vulnerable children and the management of the governance of schools.<br>In May 2014 OFSTED reported that the most vulnerable children in Birmingham continue to be failed by the local authority and that there is an insufficient focus on children who need help and protection and who need to be cared for. The issues relating to the poor performance of this service are longstanding and there has been specific external intervention with the appointment of Lord Warner as Children's Commissioner. Progress is being made on responding to the issues raised and a three year improvement plan has been agreed and is being implemented. Lord Warner completed his appointment in March 2015. Notwithstanding the priority given to improvement, services for vulnerable children continue to be rated as inadequate.<br>Progress has been made following the external and internal reviews in 2014 that found serious failings in the Council's governance of schools. A Single Integrated Plan has been developed and is being implemented. Sir Mike Tomlinson, the Education Commissioner appointed by the Secretary of State for Education, continues to meet regularly with senior members and management to review progress with the implementation of the Single Integrated Plan. | **Red** |



 

# **Section 4:** Fees, non-audit services and independence


01. Executive summary

02. Audit findings

03. Value for Money

04. **Fees, non-audit services and independence**

05. Communication of audit matters

# Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

| | £ |
|---|---|
| Council audit | 417,420 |
| Grant certification | 26,600 |
| **Total fees (excluding VAT)** | **444,020** |

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

### Fees for other services

| Service | Fees £ |
|---|---|
| Group Governance Review | 33,000 |
| Finance Birmingham (tax advice, due diligence support and secondment) | 97,100 |
| Innovation Birmingham (tax advice) | 8,000 |
| Certification of grant claims (outside Audit Commission/PSAA requirements) | 11,250 |
| **Total** | 149,350 |

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan and include other services carried out since 1 April 2014. We obtained Audit Commission approval for all work once the other services fee was in excess of the 20 per cent (£83,484) threshold. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.



 

# Section 5: Communication of audit matters


01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

**05. Communication of audit matters**

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

**Respective responsibilities**

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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 communication plan | Audit Plan | Audit Findings |
|---|---|---|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓ | ✓ |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |
| Matters in relation to the Group audit, including:<br>Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ✓ | ✓ |

# Appendices

# Appendix A: Action plan

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
| --- | --- | --- | --- | --- |
| 1 | The posting of capital expenditure funded by Schools Devolved Funding needs to be reviewed to ensure it is accurate. | Medium | | |
| 2 | Finance staff need to ensure that posting of non-schools capital expenditure is appropriate and meets the Code recognition criteria for capital expenditure. | Medium | | |
| 3 | The Audit Committee needs to ensure that unaudited accounts of group entities are delivered by the end of May and audited accounts before the completion of the Council's audit. | High | | |
| 4 | Ensure that group accounts and the supporting working papers are adequately reviewed before audit submission and that working papers are submitted promptly. | High | | |
| 5 | Ensure that the valuer provides an analysis to support the assertion that there is no material risk arising from not valuing the whole class of assets each year. | High | | |

**Priority**
***High, Medium or Low***



 

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unqualified audit report**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL**

We have audited the financial statements of Birmingham City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Birmingham City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Director of Finance and auditor**
As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Foreword to the Accounts and Group Foreword to the Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the financial statements:

- give a true and fair view of the financial position of Birmingham City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

**Emphasis of Matter – equal pay claims**
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in the Comprehensive Income and Expenditure Statement, notes 1, 3, 4, 6, 7, 10, 13, 32, 33 and 41, the Housing Revenue Account Income and Expenditure Statement and note H9 to the financial statements concerning the uncertain outcome of claims made against the Authority under equal pay legislation. The final amount payable and timing of the payments is uncertain and influenced by court judgements; the number of claims the Authority receives; the outcomes of negotiations in respect of the claims and associated oncosts. The ultimate liability can fluctuate significantly and, therefore, may materially increase or decrease the provision included in the financial statements for these claims. Accordingly, the impact of this uncertainty on the provision currently included in the financial statements cannot be quantified.

**Opinion on other matters**
In our opinion, the information given in the Foreword to the Accounts and Group Foreword to the Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we report by exception**
We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Respective responsibilities of the Authority and the auditor**

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Basis for qualified conclusion**

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

- The Secretary of State for Communities and Local Government appointed an Improvement Panel in January 2015 in response to recommendations made in Sir Bob Kerslake's review of the Authority in his report dated December 2014. The Panel has recognised that the Authority is making some progress in addressing the recommendations made. It has however expressed concerns relating to slow progress in the development of a City Partnership and an agreed vision for the City and the securing of sufficient senior management capability.
- In May 2014 OFSTED reported that the most vulnerable children in Birmingham continue to be failed by the local authority and that there was an insufficient focus on children who needed help and protection and who need to be cared for. Following this inspection a three year improvement plan has been agreed by the Authority and this plan is being implemented. However, at this time services for vulnerable children continue to be rated as inadequate by OFSTED.
- Significant failings in the Authority's management of schools were identified by Peter Clarke in July 2014 and the Secretary of State for Education appointed an Education Commissioner in September 2014 to oversee the implementation of improvements in the management of schools at the Authority. A Single Integrated Plan has been developed by the Authority, but this plan has not yet been fully implemented.

These matters are evidence of weaknesses in arrangements for prioritising resources and improving efficiency and productivity.

In considering the Authority's arrangements for securing financial resilience we have identified the following matter:

- The settlement of equal pay claims is continuing to have a significant impact on the Authority's financial resilience and the Authority needs to generate £359 million of savings by the end of 2017/18. The Improvement Panel has expressed concern relating to the slow progress made by the Authority in the development of its financial strategy. However, the Panel also recognised that the Authority had got back on track with the challenging delivery timetable. Detailed savings implementation plans are being developed but are not yet in place in all instances for 2015/16 and plans have not been developed for the majority of savings required in 2016/17.

This matter is evidence of weaknesses in arrangements for strategic financial planning.

**Qualified conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Birmingham City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

**Certificate**

We certify that we have completed the audit of the financial statements of Birmingham City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones
Director

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

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