BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 29 MARCH 2022 AT 14:00 HOURS
IN CHARLES DICKENS ROOM, BMI, MARGARET STREET, [VENUE ADDRESS]

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's meeting You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 **APOLOGIES**

To receive any apologies.

3 **DECLARATIONS OF INTERESTS**

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

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

a) To consider whether any matter on the agendacontains exempt within the meaning of Section 100I of the Local Government Act 1972, and where officers consider that the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons outlined in the report.
b) To formally pass the following resolution:-
Item 8 Group Company Assurance - Informing the Audit Risk Assessment - Exempt paragraph 3
RESOLVED – That, in accordance with Schedule 12A of the Local Government Act1972 as amended by the Local Government (Access to

information)(Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

5 - 10 5 **MINUTES - AUDIT COMMITTEE**

Minutes of the meeting held on 25 January, 2022 - confirm and sign

Minutes of the meeting held on 15 February, 2022 - to follow

11 - 24 6 **BIRMINGHAM AUDIT – INTERNAL AUDIT PLAN 2022/23**

Report of the Assistant Director Audit and Risk Management

(15 mins)

25 - 52 7 **ADOPTION OF ACCOUNTING POLICIES FOR 2021/22**

Report of the Director of Management

(10 mins)

53 - 56 8 **GROUP COMPANY GOVERNANCE ASSURANCE - INFORMING THE AUDIT RISK ASSESSMENT - PUBLIC**

Report of the Interim Chief Finance Officer

(20 mins) - Alison Jarrett will be in attendance

57 - 60 9 **SCHEDULE OF OUTSTANDING MINUTES**

Information for noting

10 **DATE OF THE NEXT MEETING**

The next meeting is scheduled to take place on Tuesday 26 April, 2022 at 1400 hours in the Charles Dickens Room, BMI, Margaret Street.

11 **OTHER URGENT BUSINESS**

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

12 **AUTHORITY TO CHAIR AND OFFICERS**

Chair 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'.

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

1 **GROUP COMPANY GOVERNANCE ASSURANCE - INFORMING THE AUDIT RISK ASSESSMENT - PRIVATE REPORT**

Item Description

2 **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 Chair are matters of urgency.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
25 JANUARY 2022

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY, 25 JANUARY 2022 AT 1400 HOURS IN COMMITTEE ROOM C, COUNCIL HOUSE EXTENSION, 6 MARGARET ST, BIRMINGHAM

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Bore, Bridle, Morrall, and Tilsley

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NOTICE OF RECORDING/WEBCAST

406 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

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

APOLOGIES

407 Apologies were submitted on behalf of Councillors Akhtar, Jenkins and Quinnen for their inability to attend the meeting.

The Chair also noted that he had received an apology from the Cabinet Member Vulnerable Children's and Families Councillor Sharon Thompson who had been attending for the assurance session at agenda item No. 6 which was now withdrawn.

DECLARATIONS OF INTEREST

408 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.

EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

408 The Chair noted that there were no private items on the agenda and he indicated that he did not believe that the meeting would need to go in to private session.

MINUTES – AUDIT COMMITTEE – 29 NOVEMBER 2021

409 The Chair noted that the minutes of the last meeting were not yet available for confirmation and signing.

ASSURANCE SESSION - CABINET MEMBER VULNERABLE CHILDREN'S AND FAMILIES PORTFOLIO

410 Item deferred to the next meeting.

AUDIT FINDINGS REPORT 2019/20 - RECOMMENDATIONS UPDATE

The following report of the Director of Council Management was submitted: -

(See document No.1)

Officers spoke to the report and responded to questions from Members of the Committee.

Upon consideration, it was:

411 **RESOLVED:-**

That the updates on progress in implementing actions to meet the recommendations of the External Auditor's Audit Findings Report 2020/21 be noted.

EXTERNAL AUDITOR'S FINDINGS REPORT 2020/21

The following report of the External Auditors was submitted: -

(See document No.2)

Jon Roberts and Laurelin Griffiths of Grant Thornton, External Auditors, gave a detailed introduction of the report noting that the Audit was ongoing and in order to bring the most up to date information the report had been circulated late. They then responded to Members questions.

Councillor Bore referring to the paragraphs on page 10 of the report sought clarification of them and suggested that a written explanation should be provided to the Committee in future. Officers responded. The Chair asked if a written response could be made to a future meeting.

Following comments from Councillor Morrall about the need for the A38 highway improvements to be completed before the Commonwealth Games so that there is not a risk associated with the Games, the Chair noted that he had received a letter from Councillors Jenkins and Morrall on the matter and was seeking advice from the City Solicitor which would be brought back to the Committee. It was agreed that the letter could be forwarded to the External Auditor

412 **RESOLVED**:-

(i) That the report from the External Auditors be noted; and

(ii) That the Managing Director Housing report on the valuation of Tower blocks in the City Housing stock.

OMBUDSMAN REPORT CONCERNING A COMPLAINT ABOUT THE REFUSE AND RECYLING SERVICE

The following report of the Director of the City Operations Directorate was submitted: -

(See document No.3)

Darren Share, Assistant Director Street Scene, made introductory comments relating to the report and responded to questions from Members.

Members of the Committee gave examples where departments worked in silos and noted that this was not acceptable.

The Chair noted that residents had received a poor service and he was concerned about the passing of blame between departments. He was frustrated to hear that, particularly as it was not the first time that the Committee had come across that issue. He suggested that the Committee request the Chief Executive to review how departments work in a joined-up way and how complaints from residents and Councillors on poor service are dealt with. The first officer/department receiving the compliant should ensure it is dealt with even if another department is involved.

Upon consideration, it was:

413 **RESOLVED:-**

(i) That the Director of City Operation's response to the Local Government and Social Care Ombudsman's recommendations be noted; and

(ii) That the Chief Executive review how departments work in a joined-up way and how complaints from residents and Councillors on poor service are dealt with.

RISK MANAGEMENT UPDATE

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

(See document No.4)

Sarah Dunlavey Assistant Director, Audit & Risk Management, made introductory comments relating to the report and responded to questions from Members.

Officers responded to a comment from the Chair that SR 5.6 Safeguarding Children should be in the top box. The Chair indicated that as the matter of safeguarding children had come before Committee on several occasions, he felt that where and why safeguarding children was on the strategic risk map in a particular place should be raised at a future meeting with the Cabinet Member and officers.

Upon consideration, it was:

414 **RESOLVED:-**

(i) That the progress in implementing the Risk Management Framework and the assurance and oversight provided by the Council Leadership Team (CLT) be noted;

(ii) That the Committee have reviewed the strategic risks and assessed whether further explanation/information is required from risk owners in order to satisfy itself that the Risk Management Framework has been consistently applied; and

(iii) That the SR5.6 Safeguarding Children risk position on the strategic risk map be raised with the Cabinet Member and officers at a future meeting.

SCHEDULE OF OUTSTANDING MINUTES

The following Schedule of Outstanding Minutes was submitted:-

(See document No.5)

415 The Chair noted that the Schedule of Outstanding Minutes had not been updated since the last meeting but noted that Outstanding Minutes 334, 335, 364, 365, 379 and parts (ii) and (ix) of 381 were discharged at the last meeting.

DATE OF THE NEXT MEETING

416 The next meeting is scheduled to take place on Tuesday, 15 February 2022 at 1400 hours in Committee Room C, Council House Extension, Margaret Street.

OTHER URGENT BUSINESS

417 Councillor Bore felt that Committee Room C was a more suitable room than the Main Hall at the BMI and he queried why Committee Room C had not used from the onset. The Chair reported that Council Business Management Committee was pushing for the best possible rooms available to be used for meetings. He added that, subject to the situation with the Covid Pandemic continuing to improve, he would like to see more officer attend the meeting face to face in future.

AUTHORITY TO CHAIRMAN AND OFFICERS

418 **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.

The meeting ended at 1531 hours.

……………………………..

CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Assistant Director, Audit and Risk Management**
Date of Meeting:	**29th March 2022**
Subject:	**Birmingham Audit – Internal Audit Plan 2022/23**
Wards Affected: All	

1. Purpose of report.

1.1 To gain approval of the 2022/23 baseline internal audit plan.

2. Recommendations

2.1 That members of the Audit Committee:

2.1.1 note the methodology and assumptions applied in developing the 2022/23 internal audit plan;

2.1.2 consider the proposed audit coverage and identify any areas they wish to suggest for inclusion in the risking process; and

2.1.3 subject to any agreed adjustments, approve the proposed baseline plan.

3. Summary of Key Issues

3.1 The estimated number of audit days available for 2022/23 is 4416.

3.2 The audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control.

3.3 The plan is dynamic and is constantly reviewed and updated, based on discussions and feedback received, to reflect the changing risks faced by the Council.

3.4 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.5 Progress in delivering the audit plan, together with any key issues identified, will be reported to future Audit Committee meetings.

4. Legal and Resource Implications

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

5. Risk Management & Equality Analysis Issues

5.1 Risk management forms an important part of the internal control framework that the Council has in place and is taken into account in setting the audit plan.

5.2 We have undertaken an equality analysis for all of our key policies and procedures and where appropriate have developed action plans to address any potential adverse impacts.

6. Compliance Issues

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

Sarah Dunlavey
Assistant Director, Audit & Risk Management

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Birmingham Audit –Internal Audit Plan 2022/23

29th March 2022

Contents

1. **Background**
2. **Quality Assurance**
3. **Internal Audit Plan**

Appendix A: **Internal Audit Plan Summary**

Appendix B: **Internal Audit Baseline Plan 2022/23**

1. Background

1.1 It is a statutory requirement for Local Authorities to have an internal audit function. Within the Council this function is delivered in house by Birmingham Audit.

1.2 Birmingham Audit provides a range of internal audit and counter fraud services. These include assurance reviews of the Council's financial and operational systems, computer audit reviews, corporate and social housing fraud investigations, fraud awareness, corporate governance and risk management reviews, and compliance reviews to check adherence to policies, procedures and systems. The legislative framework and professional standards / guidelines we are required to adhere to include:

- Accounts and Audit Regulations 2015;
- Fraud Act 2006;
- Social Housing Fraud (Power to Require Information) Regulations 2014;
- Council Tax Reduction Schemes (Detection of Fraud and Enforcement) Regulations 2013; and
- Public Sector Internal Audit Standards (PSIAS).

1.2 The annual audit plan is prepared using a risk-based methodology that enables the provision of an independent opinion on the adequacy and effectiveness of the systems of internal control (comprising of risk management, corporate governance, financial and operational controls). The plan is dynamic and is constantly reviewed and updated to reflect the changing risks faced by the Council.

1.3 This assessment has regard for the adequacy of the overall assurance framework that is in place across the Council. Whilst Internal Audit is a key part of this framework, it also includes internal and external processes such as day to day management controls, performance management, 'inspection' functions, directorate assurance statements, and assurances provided by external sources, such as the Council's external auditor.

1.4 The independent audit opinion formed from the audit work completed feeds into the published Annual Governance Statement. The emphasis of internal audit provision remains reviewing the controls around the risks that may prevent the Council from meeting its objectives and detecting and preventing fraud. Within this, there is a need to ensure that legislative and regulatory requirements and professional standards are met.

2. Quality Assurance

2.1 In line with PSIAS a Quality Assurance and Improvement Programme (QAIP) is in place. This programme requires both internal and external assessments of internal audit to be undertaken to ensure compliance with standards, that the audit service is efficient, effective and continuously improving, and that the service adds value and assists the organisation in meeting its objectives.

2.2 During the year, we retained our accreditation to the internationally recognised, and externally assessed, information security standard ISO27001:2013.

2.3 At the February 2021 Audit Committee meeting Members agreed the approach and terms of reference for our next external quality assessment. We are currently finishing the date when this assessment will take place.

3. Internal Audit Plan

3.1 Our estimated number of productive days available for 2022/23 is 4416. This compares to 4427 in 2021/22.

3.2 As part of our planning process we have undertaken a risk mapping exercise across the whole of the organisation. This involves identifying the potential risks that may impact on the delivery of key objectives and priorities, the systems of governance, and financial controls. A view as to where 'assurance' over activities can be gained is then formed. In undertaking this mapping exercise, we have used our knowledge and experience of the organisation as well as liaising with key stakeholders including Audit Contact Officers, Directorate Management Teams and Directors / Assistant Directors.

3.3 The first call on our time is to provide assurance around the main financial systems. We are continuing to utilise data analytical techniques to review transactions and controls. This is less resource intensive and enables us to provide greater coverage and a more informed assurance. This work will include reviewing the revised systems and processes introduced as part of the 1B programme. We have allocated 705 days for the main financial systems work, including the review of IT controls, in 2022/23 the main areas we intend to cover are:

- Payroll
- Accounts Payable
- Accounts Receivable
- BACS
- Procurement - incorporating Contract Auditing
- Council Tax
- NNDR
- Benefits
- Financial Management/Control
- Asset Management/Fixed Assets
- Rent Collection and Charges
- Non invoiced income / Cashiers
- Direct Payments
- Carefirst / Eclipse

3.5 We have also ‘ring-fenced’ a number of days to support the Corporate Fraud Team, complete the school visiting programme and for undertaking chargeable work.

3.5.1 The Corporate Fraud Team undertake investigations on allegations of internal fraud involving members of staff, Council members, suppliers of goods and services to the Council and / or organisations that are in receipt of Council funding. The team also undertakes pro-active anti-fraud work and develops and delivers fraud awareness training throughout the organisation. Within the 2022/23 plan we have allocated 830 days for this work (this excludes work on application-based fraud e.g. Social Housing, Council Tax, NNDR etc.). We use a referral assessment process to determine which referrals we will investigate; this ensures our specialist skills are deployed in the areas of greatest risk. Where we are not able to devote resources to investigating a referral, we provide support and guidance to managers to ensure the necessary action is completed.

3.5.2 As in 2021/22, 540 days have been allocated for the completion of school visits. The school visiting programme is risk based to ensure we target our resources effectively.

3.5.3 Chargeable work includes audit reviews completed on behalf of Acivico, and grant certification. We are pleased to announce that we have recently retained the contract for the provision of internal audit services to Acivico following a competitive market exercise.

3.6 The remainder of our available resource is allocated based on our assessment of risk. We use our risking model to ‘score’ all potential ‘auditable’ areas and then rank them in order of priority. There are a number of factors that are considered as part of the risk model:

- assessment of the adequacy of the control environment;
- strategic alignment to organisation priorities;
- materiality;
- sensitivity/reputational risk;
- assessment of management controls;

- management concerns;
- assurance based on internal audit work / knowledge and how recent that was;
- inclusion in the corporate risk register;
- assurance based on scrutiny reviews;
- assurance based on external audit or other inspectorate work and how recent that was; and
- assurance gained from other sources, including that gained from operational and performance management.

3.7 The risk assessment is dynamic and responsive to changing circumstances. As we continually review and update this assessment the audit plan will change and evolve in line with emerging risks and priorities.

3.8 The plan also includes a proportion of time that has been set aside to cover contingencies and follow-up work. This helps us 'flex' the plan and respond to emerging issues during the year and ensure that significant audit issues are actioned.

3.9 A summary of the 2022/23 audit plan, based on our current assessment of risk is detailed in Appendix A, previous year figures are provided for comparative purposes. A detailed plan, outlining the proposed areas of review, is detailed in Appendix B. We are continuing to revise and update this plan, based on discussions and feedback with senior managers.

3.10 The views and engagement of the Audit Committee are important to the internal audit planning process. Members are requested to consider the proposed internal audit coverage and identify any areas they wish to suggest for inclusion in the risking process.

3.11 Any significant updates to the plan will be reported to the Audit Committee. Progress in delivering the plan, together with any significant issues identified, will also be reported to Audit Committee. Audit report schedules, detailing the final reports issued during the month and their assurance and risk ratings, will be issued to Committee Members throughout the year. Members can request a copy of any report.

Appendix A

Internal Audit Plan Summary

	20/21		21/22		22/23	
	%	Days	%	Days	%	Days
Number of Audit Days in Annual Plan	**100%**	**4664**	**100%**	**4427**	**100%**	**4416**
Main Financial Systems	15%	705	16%	705	16%	705
Business Controls Assurance	38%	1780	39%	1711	39%	1745
Investigations	18%	830	19%	830	19%	830
Schools (Non Visits)	1%	30	1%	42	1%	27
Schools (Visits)	15%	720	12%	540	12%	540
Follow up Work	4%	175	4%	175	4%	175
Ad-hoc Work / Contingency	6%	299	6%	289	6%	259
Planning & Reporting	3%	120	3%	130	3%	130
City Initiatives	0%	5	0%	5	0%	5

Birmingham City Council

Appendix B

Internal Audit Baseline Plan 2022/23

	Days	Total
Financial Controls / System **(including computer audits where appropriate)**		
Accounts Payable	50	
Accounts Receivable	50	
Payroll/HR	50	
Main Accounting	50	
Asset Management	50	
Procurement, Contract Audit and PFI	140	
Cash Income / Cashiers	30	
Direct Payments	30	
Carefirst / Eclipse	30	
Benefits	50	
Housing Rents	25	
Revenue (Council Tax and NNDR)	60	
Audit Letter	5	
IT Related Financial Systems Work (including Oracle controls)	85	**705**
Business Controls Assurance		
Estimated Work in Progress b/fwd. from 2021/22	55	
Data Analysis	200	
Corporate Risk Management Facilitation	50	
Chargeable Work - Acivico	40	
Chargeable Work – Grant Certification	80	
IT Related Systems and Processes	360	**785**

	Days	Total
<u>Adults Social Care</u>		
Disabled Facilities Grant (DFG)	20	
Early Intervention Community Team	20	
Assessment & Support Planning	20	
Commissioning	20	
Liberty Protection Standard	10	
Placements	20	
Enablement	15	
Day Centres	15	**140**
<u>City Housing</u>		
Homelessness	15	
Tenant Management Organisations	20	
Dispersed Temp Accom Properties	20	
Tenant Engagement – Response to TPAS Review	15	
Housing Repairs – Contract Compliance / Assurance (funded through HRA)	180	
		250
<u>City Operations</u>		
Resilience	20	
Environmental Health	15	
Leisure Facilities Managed Internally	20	
Leisure Facilities External Management Arrangements	20	
Markets	20	
Grounds Maintenance	20	
Waste Management	25	
Fleet Management	20	**160**

	Days	Total
Council Management		
Accountable Body	30	
Project Management	30	
Governance	10	
Corporate Performance Indicators	10	
Ethics	10	
Delivery Plan / Improvement Agenda	20	
Commercial Strategy / Activities	10	
Risk Management	10	
Self-Assessment - AGS Process	10	
Acivico Contract Monitoring	10	
Customer Services	10	**160**
Children and Families		
Safeguarding Corporate Overview	30	
Home to School Transport	25	
Directorate Contract Management	20	
SEND – Sufficiency Strategy	15	
SEND – Ofsted Improvement Plan	10	
Children Not in Education	10	
Birmingham Children's Trust – Contract Management	20	
Safeguarding & Development – BCSB	20	
Directorate Compliance - Corporate DBS Process	15	
Increasing Capacity in Mainstream Education for SEND Children	15	
EHCPs – Monitoring & Managing Completion	15	
		195

	Days	Total
Place, Prosperity and Sustainability Air Quality / Climate Change	 10	 **10**
Strategy, Equalities and Partnerships Public Health Equality and Cohesion	 30 15	 **45**
Investigations Reactive investigations Proactive work Fraud Awareness	 430 200 200	 **830**
Schools - Non-Visits Admissions and Appeals Responding to the Challenge of Improving Financial Management in Schools **Schools – Visits**	 15 12 540	 **27** **540**
Follow Up Work		**175**
Ad Hoc Work / Contingency		**259**
Planning and Reporting		**130**
City Initiatives		**5**
TOTAL		**4416**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Director of Council Management**
Date of Decision:	**29 March 2022**
Subject:	**Adoption of Accounting Policies for 2021/22**
Wards affected: All	

1 Purpose

1.1 To seek Members' approval to the adoption of accounting policies for the completion of the Council's accounts for 2021/22 and note the potential changes to them in light of the recently concluded consultation.

1.2 To notify Members of the changes in accounting standards that will impact on the Council's Accounts in future years.

2 **Decisions recommended:**

That Audit Committee

2.1 Consider and adopt the accounting policies for the determination of the Council's accounts for 2021/22, and approve the potential changes to PPE valuations if the Code is amended

2.2 Note the implications for future years' accounts arising from the changes in Accounting Standards.

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Contact Officer: Mohammed Sajid
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3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:

Yes

3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:

The Chair of the Committee has been consulted.

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):

Sections 3(3) and 3(4) of the Local Audit and Accountability Act 2014 require the Council to prepare financial accounts for each 12 month period ending 31 March.

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

Yes

3.5 Main Risk Management and Equality Impact Assessment Issues (if any):

The Council is required to produce its annual accounts within statutory deadlines. The adoption of its accounting policies at an early stage will ensure that there are clear guidelines on recording accounting entries.

4 Relevant background/chronology of key events:

4.1 The Council is required to prepare its accounts with regard to: a) Relevant accounting standards; and b) The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 published by the Chartered Institute of Public Finance Accountancy (the Code) which is updated annually.

4.2 Whilst accounting standards provide the framework for the preparation of accounts, they are subject to interpretation and judgement, for example, the period over which non-current assets are depreciated. The Council's accounting policies set out the Council's interpretation of the application of relevant accounting standards and form a consistent basis for recording activities.

4.3 In developing the accounting policies for the Council, the template provided in the CIPFA Code guidance 20021/22 has been used as a base position except where amendments to reflect local circumstances or to enhance the policies is more appropriate. The policies where there are some changes to the Guidance Model are as follows:

- Note xvii – Accounting for Schools – additional clarification has been added to set out the Council's approach to accounting for land and building assets associated with Voluntary Aided, Voluntary Controlled and Foundation Schools.

- Note xix – Cash and Cash Equivalents – the Council policy is to recognise cash and cash equivalents as those assets where the asset can be used or recovered immediately for use. All other deposits are accounted for as investments. This varies from the CIPFA guidance which describes cash equivalents as those investments that are highly liquid investments that mature in a period of no more than three months.

- Note xx - Provisions, Contingent Liabilities and Contingent Assets – sections have been added to cover the accounting arrangements for equal pay and onerous contracts given the significance of these disclosures to the Council. The paragraph for equal pay provisions has also been updated to reflect the change in legislation noted below.

- Note xxii. Council Tax and Business Rates – additional clarification has been added.

- Note xxvii – Council Acting as Agent - policy has been added for clarification

- xxx – Dedicated Schools Grant deficit balances – new policy has been added for clarification, see below for explanation regarding new legislation.

- Acquired Operations - policy has been removed as there are no acquired operations in 2021/21.

- Discontinued Operations - policy has been removed as there are no discontinued operations in 2021/21.

4.4 The proposed accounting policies for consideration by Members are set out in Appendix 1 to this report. When the financial statements are produced, only those accounting policies that have an impact on the financial statements for the years under consideration will be included in the final document.

4.5 The only other alteration that may be made to them will be any possible streamlining, or simplification deemed possible upon review through the accounts production process. No changes will be made that materially affect the Council's accounting policy without noting to the Audit committee for approval, except those mentioned in Paragraph 7 below

5 New Accounting Standards

5.1 There is one accounting standard, IFRS 16, Leases, which will impact on the 2022/23 financial statements and will be referenced in the 2021/22 financial statements as “An Accounting Standard Issued but not yet Adopted”.

5.2 The implementation of this standard was deferred for a year as whilst it has no impact on balances for local authorities it was considered to do so for other organisations that form part of the Whole of Government Accounts (WGA). As a result of the impact on the bottom line for certain organisations, it was decided that implementation would be deferred for part of the public sector for another year. This would have meant that local authorities would have had to produce their accounts under the new accounting standard and then provide information for the WGA on the old accounting basis. Therefore, it was agreed that implementation would be deferred for local authorities until the 2022/23 financial year.

5.3 This standard does not impact on an entity that is a lessor but does have an impact where it is a lessee. Once the standard is implemented lessees will have to account for leases greater than 12 months for assets, other than low value assets, by recognising an asset, with an associated liability for the present value of the unavoidable lease payments, on its balance sheet.

Effectively operating leases would be treated in the same way as finance leases are at present. The change in approach is likely to mean that all new substantial leases of a lessee would be treated as capital expenditure and fall within the Prudential Framework.

6 Accounting Implications

6.1 The potential implications for future years’ accounts as a result of the implementation of the new accounting standards will be reported to Members as the standards are published and additional information becomes available.

7 Emergency proposals for the update of the 2021/22 Code

7.1 In February 2022 CIPFA/ LASAAC launched a short consultation on time-limited changes to the Code to help alleviate current delays to the publication of audited financial statements

7.2 **Pausing Valuation of Operational Property Plant and Equipment (PPE):** CIPFA/ LASAAC understands that valuation of Operational PPE is an area where significant effort is being made by both preparers and auditors, and has contributed to delays in the finalisation of audited financial statements. Improvement in this area could have a significant beneficial effect on audit completion if it can be achieved without adverse effects on public accountability.

7.3 The Code sets out requirements for measurement of operational PPE to be at current value. CIPFA/LASAAC proposes that local authorities should have the opportunity to 'pause' normal expectations that most operational PPE are measured once every five years for each class of assets.

7.4 CIPFA/LASAAC also proposes that operational PPE is subject to indexation, applied to the carrying value of assets at the start of the financial year, and subject to the normal adjustments for asset disposals, depreciation and impairment.

7.5 The measurement for these assets would be declared to reflect the indexation adjusted calculation, rather than being an estimate of the IAS 16 revaluation basis figure, which would be achieved with full revaluation of all assets.

7.6 The approach chosen from the permitted options would need to be declared in the financial statements as an accounting policy

7.7 The proposals are expected to be a temporary expedient that will be adopted for a short-term period, after which reporting will be carried out under the full requirements of IAS 16 as adopted in the Code.

7.8 Post consultation CIPFA/LASAAC has recently announced it will no longer support this pause.

7.9 **Delay to Implementation of IFRS16:** This has already been deferred three times

7.10 CIPFA/LASAAC recognises local authority finance teams have been facing many pressures in the last two years and also the capacity of auditors to progress the substantial verification requirement

7.11 CIPFA/LASAAC is consulting on deferring implementation of IFRS 16 for at least a year.

8 Recommendations

8.1 It is recommended that Members:

a) adopt the accounting policies for 2021/22 as detailed in Appendix 1. Adopt the potential changes that may be introduced into the Code and the resultant changes to the Accounting policies

b) note the implications for future years of the introduction of new accounting standards

……………………………………………………………………………..

Rebecca Hellard, Director of Council Management

Appendices

Appendix 1 – Accounting Policies 2021/22

Note 1
Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 require the Council to prepare an annual statement of accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

- Revenue from the 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;
- Revenue from the sale of goods or provision of services satisfied over time is recognised if the Council can reasonably measure its progress towards complete satisfaction of the performance obligation;
- 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 based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- When income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash and Cash Equivalents are represented by cash in hand and deposits with financial institutions, which must be repayable immediately without penalty on notice of not more than 24 hours. 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.

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. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 16, 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 to the Capital Adjustment Account.

vi. Council Tax and Business Rates

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

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

- While the Council Tax and Business Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

vii. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.00% based on the indicative rate of return on high quality corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.
- The change in the net pensions liability is analysed into the following elements:

  Service cost comprising:

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

Re-measurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability/(asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the West Midlands Local Government Pension Fund - cash paid as employer's contributions to the pension fund; not accounted for as an expense.

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

Discretionary Benefits

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

viii. 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.

ix. Financial Instruments

Financial Liabilities

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

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

However, the Birmingham City Council 2030 bonds, issued in exchange for NEC loan stock in 2005 and the NEC Development 2027 bonds, were issued at a fair value in excess of the principal repayable. Interest is being charged on an amortised cost accounting basis, which writes the value down to zero at maturity.

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

Expected Credit Loss Model

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

x. 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.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government grants, third party contributions and donations are recognised as due to the Council when there is 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 satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

xii. Business Improvement Districts

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

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

xiii. Community Infrastructure Levy

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

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

xiv. Heritage Assets

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

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

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

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

xv. Intangible Assets

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

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

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

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

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

xvii. Investment Properties

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

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

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

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

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

xviii. Joint Operations and Jointly Controlled Assets

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

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

xix. Leases

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

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

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

The Council as Lessee

Finance Leases

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

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 are accounted for using the policies generally applied to such assets (see section xxi above).

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

Operating Leases

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

xx. Overheads and Support Services

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

xxi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in asset valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

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.

Revaluation and impairment losses

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

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

Useful Life

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

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

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

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

Depreciation

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

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

Componentisation

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

xxii. Service Concession Arrangements

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

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

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

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

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

xxiii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year –

where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant Directorate.

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

Onerous Contracts

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

The Council has received 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, for all claims made up to 1 April 2020. 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 Balance 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 Balance through the Movement in Reserves Statement in future financial years as payments are made.

The ability to defer the reserves impact of new provisions ceased to be allowable from 1 April 2020. Liabilities, and changes in them, recognised before 1 April 2020 continue to be deferred until settlement. New Equal Pay liabilities recognised after 1 April 2020 are accounted for in line with Section 8 of the CIPFA code, and IAS37.

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 31 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 31 to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxiv. Reserves

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

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

xxv. Revenue Expenditure Funded from Capital under Statute

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

xxvi. Accounting for Schools

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

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

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

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

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

xxvii. Value Added Tax

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

xxviii. Fair Value Measurement

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

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

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

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

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

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

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

xxix. Council Acting as Agent

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

xxx. Dedicated Schools Grant Deficit Balances

Where the Council has a deficit in respect of its schools budget for a financial year beginning on 1 April 2020, the Council does not charge to a revenue account an amount in respect of that deficit. Instead, it charges the amount of the deficit to an account established, charged and used solely for the purpose of recognising deficits in respect of its schools budget

These financial statements continue to be produced under IFRS with the DSG being accounted for in the normal way (through the CIES). An accounting adjustment is made via the MiRS to move any DSG deficit balances on a time limited basis to an unusable reserve established for that purpose.

Public Report

Birmingham City Council
Report to Audit Committee

29 March 2022

Subject:	Informing the Audit Risk Assessment
Report of:	Rebecca Hellard, Interim Chief Finance Officer
Relevant Cabinet Member:	Councillor Brigid Jones
Relevant O &S Chair(s):	Councillor Sir Albert Bore
Report author:	Alison Jarrett

Are specific wards affected? If yes, name(s) of ward(s):	☐ Yes	☒ No – All wards affected
Is this a key decision? If relevant, add Forward Plan Reference:	☐ Yes	☒ No
Is the decision eligible for call-in?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, provide exempt information paragraph number or reason if confidential :	☐ Yes	☒ No

1 Executive Summary

This report presents the Committee with the responses from the Council's group companies on a questionnaire on their Audit Risk Assessment. The report has been considered by Cabinet Committee Group Company Governance at their meeting on 17th March 2022 and their observations are included within the report.

2 Recommendations

2.1 Members are asked to consider the responses from the Council's group companies, the issues raised by Cabinet Committee Group Company Governance (CC-GCG) and note the process for group risk assessment.

3 Background

3.1 The Council has created a number of companies that fall within its sphere of control, either as wholly owned subsidiaries, associates where the Council has significant influence, Joint Ventures or other arrangements. The Council has to consider whether there are risks to the Council either through misuse of funds or misstatement of activities.

3.2 An exercise is carried out each year to determine the "Group Boundary", that is to define which subsidiaries, associates and joint ventures are consolidated with the Council's financial statements to produce Group Accounts. The larger entities within the overall Council group boundary have been asked to provide information through the completion of a questionnaire to allow Members to gain assurance that funds are being used efficiently and effectively and that information provided in respect of their financial statements may be relied on. The assurance statements have been broken down into three main areas:

- Company Environment – looking at the governance arrangements of the company
- The Identification, Mitigation and Reporting of Risk – looking at how the company manages risk
- Financial Statements – looking at factors that may impact on the company's financial health and financial statements.

The responses provided are attached as appendices to the private report.

3.3 Audit Committee is responsible for signing off the Council's financial statements, including relevant group accounts, in due course. As part of this sign off process, members of the Audit Committee will need to be confident that the information presented represents a 'true and fair view' of the financial position of the group and that the accounts are materially correct.

4 Options considered and Recommended Proposal

This report provides information to Members on governance and financial arrangements within group entities that will be considered for consolidation in the Council's group accounts.

5 Consultation

5.1 The company returns were presented to the CC-GCG at its meeting on 17 March 2022 and members were asked to consider the responses received and identify any issues that it would wish to raise with Audit Committee for their consideration and further review. The Committee considered the company returns and discussed certain of them in terms of their activity levels, using this to inform future CC-GCG agendas. A recommendation was made to officers that consideration of a RAG rating to the risk/materiality of each should be considered to assist in focussing attention and enquiry. Further commentary is included on the private report.

6 Risk Management

6.1 This report sets out information on external organisations associated with the Council.

7 Compliance Issues:

7.1 **How are the recommended decisions consistent with the City Council's priorities, plans and strategies?**

The production of annual group accounts is a statutory requirement to consolidate entities that are controlled by the Council and which are material to its activities.

7.2 **Legal Implications**

a) Section 151 of the Local Government Act requires the Chief Finance Officer (as responsible officer) to ensure proper administration of the Council's financial affairs.

7.3 **Financial Implications**

a) The Council is required to produce group accounts where it controls external organisations where the level of activity is considered to be material to the entity.

7.4 **Procurement Implications**

a) There are no procurement implications directly arising from this report.

7.5 **Human Resources Implications**

a) There are no human resources implications directly arising from this report.

7.6 **Public Sector Equality Duty**

a) There are no equality duty or equality analysis issues relating to the proposals set out in this report.

8 Background Documents

None

9 **Appendices –** these are attached to the private report as they contain commercially confidential information

Responses from

A. Birmingham Airport Holdings Limited
B. Birmingham Airport Management Assurance
C. Birmingham Children's Trust C.I.C.
D. Birmingham City Propco
E. Finance Birmingham Limited
F. InReach Limited
G. InReach – KAIM
H. Paradise Circus Limited Partnership
I. Paradise Circus Limited Partnership – supplementary info

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

29 MARCH 2022 correct following 25 January 2022 meeting

SCHEDULE OF OUTSTANDING MINUTES

Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.

Completed & discharged

Approaching 2 months

2 months +

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
350 26/07/2021	**ASSURANCE SESSION – CABINET MEMBER EDUCATION, SKILLS & CULTURE PORTFOLIO** **Additional Recommendations:** That the Audit Committee; (ii) Agreed for a written response outlining the number of children missing in education, children missing and the work around the safeguarding to be provided.	Kevin Crompton – Interim Director for Education & Skills to lead on responses. **Note 17/03/22 Information sent to Members of the Audit Committee in February 2022** **Completed and discharged**
	(iii) Noted the Assistant Director – Legal Services & Deputy Monitoring Officer to review the contract for the interim Director for Education and Skills and provide this to Councillor Jenkins if appropriate. **The Office of the Monitoring Officer has had the opportunity to consider Cllr Jenkins request for copy of the contract as between the former DCS (Kevin Crompton) and the Council. There is no direct contract of engagement as between the**	**Note: Comments from the Office of the Monitoring Officer under action (iii)**

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	Council and the former DCS. There exist two contracts. The first as between the former DCS and his supplier agency. The second as between the supplier agency and the Council. **The Office of the Monitoring Officer has reviewed the first contract. Details of the former DCS' renumeration are already in the public domain as all interim JNC Officers renumeration was provided to Full Council earlier this year.** **It is not considered appropriate to release to individual Audit Committee members copies of agency supplier contracts. The content would not assist Audit Committee members in furtherance of the terms of reference of Audit Committee. In addition, the content would likely be deemed commercially sensitive information by a supplier agency.**	
	(iv) Agreed for a written response to be provided to Councillor Morrall around; ➢ additional funding West Midlands Combined Authority 2021-22; ➢ costs associated with Acivico - replacing boilers in schools and maintaining buildings; ➢ who were the competitors as there was reduction in BAES fees and non-public programmes decreased income streams; ➢ IT Infrastructure – what was happening with Adult learning, laptops being provided; ➢ increasing home-schooling – figures pre-Covid and through Covid period; ➢ school exclusions – the demographics (i.e. gender, race etc) and what was happening to re-engage children as there was a lot of gang culture and CSE's when children drop out of schools.	**Note: 18/10/2021- Responses sent to Members however, outstanding action on the up to date figures on elective home education, children missing education and children missing from home /care. This should be provided end of Oct/ Nov.**
377 19/10/2021	**<u>ASSURANCE SESSION – THE DEPUTY LEADER'S PORTFOLIO</u>** **<u>Additional Recommendations:</u>** That the Audit Committee; (ii) Agreed for a briefing to be offered to all Members of the Council on Cyber Security, GDPR and roles related to data processing. (iii) Agreed for a briefing note to be provided to Audit Committee on the shared learnings of the	Peter Bishop – Director, Digital & Customer Services to lead on responses.

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
	Complaints area from both from Audit Committee and Coordinating O&S Committee.	
381 19/10/2021	**REPORT INTO ISSUES RELATED TO THE TRAVEL ASSIST SERVICE** **Additional Recommendations:** That the Audit Committee; (ii) Noted a written response would be provided on safeguarding measures Voluntary organisations and Early Year providers were expected to have in place and the support provided by BCC.	Kevin Crompton – Interim Director for Education & Skills to lead on responses **Note: 17/11/2021- Response sent to Members.** **Completed and discharged**
	(iii) Noted a continual reflection and updates to be made on the actions to the responses of the recommendations in the Weightman's report.	Sue Harrison - New Interim Director for Education & Skills to lead on response
	(iv) Agreed once the root and branch review on Procurement, Commissioning, assurances, systemic challenges were completed, a report to be provided to the Audit Committee on its findings.	Steve Sandercock Assistant Director – Procurement (Interim) **Note: 17/11/2021- Presentation circulated to Members outlining the approach to this work. A report on the findings will be shared with the Committee in March 2022.** **Completed and discharged**
412 25/01/2022	**EXTERNAL AUDITOR'S FINDINGS REPORT 2020/21** **Additional Recommendation** (ii) That the Managing Director Housing report on the valuation of Tower blocks in the City Housing stock.	

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
413 25/01/2022	**<u>OMBUDSMAN REPORT CONCERNING A COMPLAINT ABOUT THE REFUSE AND RECYLING SERVICE</u>** **<u>Additional Recommendation</u>** (ii) That the Chief Executive review how departments work in a joined-up way and how complaints from residents and Councillors on poor service are dealt with.	
414 25/01/2022	**<u>RISK MANAGEMENT UPDATE</u>** (iii) That the SR5.6 Safeguarding Children risk position on the strategic risk map be raised with the Cabinet Member and officers at a future meeting.	