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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 22 NOVEMBER 2016 AT 14:00 HOURS
IN COMMITTEE ROOM 6, COUNCIL HOUSE, VICTORIA SQUARE, BIRMINGHAM, B1 1BB

A G E N D A

1 **NOTICE OF RECORDING/WEBCAST**

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

2 **APOLOGIES**

To receive any apologies.

3 - 6 3 **MINUTES - AUDIT COMMITTEE 12 SEPTEMBER 2016**

To confirm and sign the Minutes of the last meeting held on 12 September 2016.

7 - 228 4 **USE OF DELEGATED AUTHORITY**

Report of the Chair of Audit Committee

229 - 270 5 **CORPORATE RISK REGISTER UPDATE**

Report of Acting Assistant Director, Audit & Risk Management

271 - 308 6 **ANNUAL AUDIT LETTER**

Report of Grant Thornton

309 - 312 7 **EQUAL PAY UPDATE (PUBLIC)**

Report of the Strategic Director - Finance & Legal

8 **BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2016/17**

313 - 344

Report of Acting Assistant Director, Audit & Risk Management

9 **ANNUAL GOVERNANCE STATEMENT PROGRESS**

345 - 358

Report of the Strategic Director - Finance & Legal

10 **WEST MIDLANDS PENSION FUND CONTRIBUTIONS UPDATE**

Verbal Update.

11 **OTHER URGENT BUSINESS**

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

12 **AUTHORITY TO CHAIRMAN AND OFFICERS**

Chairman to move:-

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

13 **EXCLUSION OF THE PUBLIC**

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

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

14 **EQUAL PAY UPDATE (PRIVATE)**

Item Description

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

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

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE
12 SEPTEMBER 2016

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON MONDAY, 12 SEPTEMBER 2016 AT 1400 HOURS IN COMMITTEE ROOM 2, COUNCIL HOUSE, BIRMINGHAM

PRESENT:-

Councillor Chatfield in the Chair;

Councillors Burden, M Jenkins, Robinson, Spencer and Tilsley (1445).

****

NOTICE OF RECORDING/WEBCAST

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

APOLOGIES

914 Apologies were submitted on behalf of Councillors Bore and Shah.

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

MINUTES

Councillor Robinson undertook to speak to the Chairman after the meeting in connection with his request for the Committee to consider the tracking of children leaving school (Minute No 911 refers).

915 **RESOLVED**:-

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

ROLE OF THE AUDIT COMMITTEE – CHANGES/CHALLENGES

916 Councillor I Ward, Deputy Leader, and Jon Warlow, Strategic Director – Finance and Legal, reported verbally on the changes and challenges facing the Council including financial resilience, issues highlighted by the Kerslake Report and the Future Council Programme.

Councillor I Ward and Jon Warlow, in response to Members' comments, gave an update on the end of year forecast and the latest budget position, as more particularly referred to in the report entitled 'corporate revenue budget monitoring and mid-year review 2016/17 – month 4' due to be considered by Cabinet at its meeting on 20 September 2016.

With regard to the role of the Audit Committee, Councillor I Ward did not consider it to be within his remit to direct the work of the Committee.

In response to a request by the Chairman, Jon Warlow undertook to provide Members with information regarding net liability and the impact of the pension scheme on the revenue account.

STATEMENT OF ACCOUNTS AND AUDIT FINDINGS REPORT 2015/16

The following statement of accounts and audit findings report were submitted:-

(See documents Nos 1 and 2)

With regard to the audit findings report, the following amended Appendix B: Audit Opinon was tabled at the meeting:-

(See document No 3)

Jon Warlow, Strategic Director – Finance and Legal, Sarah Dunlavey, Assistant Director, Financial Services, and Phil Jones and Richard Percival, Grant Thornton, explained the different sections of the reports and responded to Members' comments thereon.

In response to a suggestion by Councillor M Jenkins, Jon Warlow undertook to provide Members with a copy of the leaflet explaining the Council's finances which was circulated to local residents as part of their Council Tax bill.

917 **RESOLVED**:-

(i) That the Audit Findings report from Grant Thornton be noted and the recommendations set out in appendix A be accepted;

(ii) that the final Statement of Accounts 2015/16, which will receive an unqualified opinion from the auditor, be approved;

(iii) that the letter of representation from the Strategic Director of Finance and Legal be approved.

OTHER URGENT BUSINESS

The Chairman was of the opinion that the following item should be considered as a matter of urgency in view of the need to expedite consideration thereof and instruct officers to act:-

Members' Skills/Training

918 The Chairman advised that an e-mail would be sent to Members shortly requesting them to provide details of any skills/training relating to audit that they considered might be useful in the future.

AUTHORITY TO CHAIRMAN AND OFFICERS

919 **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 1534 hours.

……..……………………………
CHAIRMAN

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Chairman of Audit Committee**
Date of Decision:	**22 November 2016**
Subject:	**USE OF DELEGATED AUTHORITY**
Wards affected: All	

1 Purpose

1.1 This report asks members to note the use of the Chairman's delegated authority to act between meetings in signing the Council's financial statements that included amendments to the statements considered by this committee on 12 September 2016.

2 Decisions recommended:

2.1 Members are asked to note:

- The amendments to the Council's financial statements;
- The additional Audit Findings Report; and
- The use of the Chairman's delegated authority to act between meetings.

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

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

3 Compliance Issues:

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

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015. The accounts were prepared in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which is based on International Financial Reporting Standards (IFRS). Section 151 of the Local Government Act 1972 requires the Strategic Director – Finance & Legal (as responsible officer) to ensure the proper administration of the Council's financial affairs.

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

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

4 Relevant background/chronology of key events:

4.1 The Council's Statement of Accounts was approved by this committee at its meeting on 12 September and signed in my role as Chairman of this committee and by the Strategic Director – Finance & Legal. The external auditors indicated in their Audit Findings Report their intention of issuing an unqualified audit opinion on the financial statements.

4.2 Following the meeting on 12 September, the external auditors identified a technical issue on the carrying value in the financial statements of the investment held by the council in the National Exhibition Centre (Developments) Limited (NECD). The external auditor's view was that the council's investment should be impaired in line with the requirements of International Accounting Standard (IAS) 36, *Impairment of Assets*.

4.3 Where a council has investments in companies that it consolidates into its group accounts, the council has the option to include that investment at either:

- Its historic cost; or
- Its fair value.

The council had opted to include investments in its subsidiary and associate companies at historic cost as set out in its accounting policies, xvii, *Interests in Companies and Other Entities*.

4.4 However, the external auditor's view was that as the value of the investment in NECD was generated only as a result of a guarantee by the council to meet the company's liabilities as they fell due then there was no material value in the company. As such the external auditor's view was that the investment should be impaired.

4.5 Following a review of the investments and a discussion with the external auditors it was agreed that the council would impair its investment in NECD by £66.3m. As the council's investment in NECD was accounted for as a capital transaction this meant that any impairment that would be a charge against the cost of services in the Comprehensive Income and Expenditure Statement would be reversed out through statutory adjustments and would not impact on the level of usable reserves held. The level of unusable reserves was reduced by £66.3m to recognise the impairment.

4.6 The original accounting treatment for the investment was to write it down in 2027 at the same time as the NECD loan stock was repaid. The effect of the impairment is to accelerate the write down of the investment value.

4.7 Due to the changes in the financial statements, the accounts needed to be resigned so that they could be issued by the statutory deadline of 30 September 2016 with the associated audit opinion. Acting under delegated authority, after the accounts had been signed by the Strategic Director – Finance & Legal, I signed the accounts on 29 September and the external auditors issued a signed audit opinion and a certificate of closure of the accounts on 30 September. Attached at appendix 1 is the revised version of the Council's Financial Statements and at appendix 2, an addendum to the Audit Findings Report considered by this committee on 12 September 2016.

5 Recommendations

5.1 Members are recommended to note the use of my delegated authority to act between meetings in signing the Statement of Accounts following the adjustment in the value of the investment in the National Exhibition Centre (Developments) Limited

Signature:

Chairman of Audit Committee: ………………………………………………….

Dated: …………………………………………………………………………

Birmingham City Council

Statement of Accounts 2015/16

Index

Narrative Report

1 Introduction

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

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

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

2 Background to 2015/16

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

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

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

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

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

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

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

3 Major Developments

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

Better Care Fund

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

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

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

Public Health Transfer

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

Paradise Redevelopment

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

3.7 The Council and BriTel Funds Trustees Limited have formed a joint company to manage the redevelopment of the area. The company has been accounted for as an associate in the Council's Group Accounts.

4 Asset Disposals

4.1 During 2015/16, the Council completed the sale of two major developments, the National Exhibition Centre Group (NEC Group) and the Grand Central shopping centre.

National Exhibition Centre Group

4.2 In March 2014, the Council announced its intention to seek offers for the NEC Group, which incorporates five exhibition and convention centres and arenas; namely NEC (National Exhibition Centre), The Vox Conference Centre within Resorts World Birmingham, Genting Arena, ICC (International Convention Centre) and Barclaycard Arena. Whilst generating a capital receipt for the Council, the sale would allow the business to take advantage of growth opportunities and reach the next stage of development under private ownership.

4.3 In January 2015, the Council announced that it had entered into a binding agreement to dispose of the NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

4.4 The sale was completed on 1 May 2015 and the City Council received a cash payment of £250m to cover:

- The sale of its equity in The National Exhibition Centre Limited (NECL);
- A premium for the sale of leasehold interests as detailed in note 42;
- Net income from operations of the NEC Group until completion of the sale.

4.5 Overall the sale of the NEC Group is recorded in the Group financial statements as a gain on disposal of £86.4m as detailed in note G4, with the split in the Council entity accounts showing a loss on disposal of £59.2m as recorded in Note 13.

4.6 The Council may also receive, depending on the performance and any future sale of the NEC Group, additional consideration comprising deferred purchase consideration of £15m in the form of a loan note with a compounding yield of 8% per annum, up to £12m in respect of accumulated tax losses which will be remitted to the Council by the NEC Group as these losses are utilised and an entitlement to proceeds equivalent to 3% of the equity value of any future sale of the NEC Group.

4.7 Following the sale the Council has retained £215m Birmingham City Council 2030 bonds that were issued in exchange for NEC loan stock in 2005 and continues to guarantee the £73m National Exhibition Centre (Developments) Plc 2027 loan stock. In addition, the ongoing funding of the NECL defined pension schemes transferred to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which replaced NECL as principal employer of the schemes.

4.8 The Council has retained the right to the ongoing proceeds from the leases relating to the Metropole and Crowne Plaza hotels and has a right to claw back certain non-core land at the NEC site for future development.

Grand Central

4.9 The Council worked in partnership with Network Rail for the development undertaken at New Street Station, which included the development of the Pallasades shopping centre (subsequently renamed as Grand Central).

4.10 Following the opening of Grand Central to the public on 24 September 2015, the Council disposed of its head lease interest in Grand Central with the sale completing on 11 February 2016. The Council has received a premium of £329m for its head lease interest. As part of the partnership arrangement, Network Rail was entitled to a share of any surplus on the sale of Grand Central. A payment of £72.9m was made to Network Rail, which has been included in Highways and Transport Services in the Comprehensive Income and Expenditure Statement.

4.11 Overall the sale of Grand Central is recorded in the Council entity accounts as a gain on disposal of £112.1m as recorded in Note 13.

4.12 The surplus from the disposal of Grand Central has been used by the Council and Network Rail to offset the costs of the development of New Street Station (the Gateway scheme).

Use of Capital Receipts

4.13 The Council has applied an element of the capital receipts received from the sale of the NEC Group, Grand Central and other non-current assets in the year:

- To meet payments made in settlement of its equal pay liabilities;
- To finance new capital expenditure;
- To meet the cost of the profit share payment made to Network Rail;
- To offset the costs incurred in disposing of assets; and
- Set aside a sum to redeem debt.

4.14 Any unused capital receipts have been appropriated to the Unapplied Capital Receipts Reserve, which has increased by £295.8m to £312.1m.

5 The Financial Statements

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

The Main Financial Statements

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

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

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

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

The 2015/16 CIES shows an increase of £37.7m, from £881.3m to £919.0m, in the net cost of services compared to 2014/15, which is primarily as a result of:

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

offset by

- A payment to Network Rail for its share of the receipt from the disposal of its head lease interest in the shopping centre in the Grand Central redevelopment;
- An impairment of the carrying value of the investment in NEC (Developments) Limited.

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

The net liability has reduced by £385.2m to £842.8m, mainly as a result of:

- The reduction in the net liability on defined benefit pension schemes of £205.9m, further details of which are set out in Notes 9, 10 and 11. The Council is addressing the liability in accordance with external requirements and its accounting policies, over both the medium and longer term;
- The increase of £94.0m in the carrying value of Property, Plant and Equipment following the latest valuation of non-current assets;
- A reduction of £246.3m in provisions set aside by the Council, mainly related to Equal Pay, following settlement of claims;

offset by

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

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

Supplementary Statements

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

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

Group Accounts

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

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

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

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

6 Accountable Body Roles

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

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

7.1 Revenue Expenditure

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

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

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

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

7.2 Capital Expenditure

7.2.1 Total expenditure on directorate capital schemes in 2015/16, reported to Cabinet on 17 May 2016, was £458.0m (2014/15: £400.8m), compared to the revised capital budget of £563.1m (2014/15: £485.9m). The reported variance of £105.1m was mainly as a result of delays in expenditure on a number of capital schemes (£113.5m). Details of this slippage are given in the Council's Capital Outturn report for 2015/16. It should be noted that no Council resources were lost as a result of the slippage as the resources and planned expenditure will be "rolled forward" into future years.

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

7.3 Material Assets Acquired

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

7.4 Capital Financing

7.4.1 The financing arrangements in respect of capital expenditure in 2015/16, as reported to Cabinet on 17 May 2016, are summarised below:

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

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

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

7.5 Service Concession Arrangements and Similar Contracts

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

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

7.6 Pension Liabilities

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

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

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

- It is not unique to Birmingham City Council as this is in common with the national position for pension funds. Details of the pension liability and assets are set out in Notes 10 and 11 to these financial statements.

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

7.7 Provisions

Equal Pay

7.7.1 The Council has continued to receive claims in respect of the Equal Pay Act 1970 up to the sign off of these financial statements and has, as a result, made provision in its accounts for these potential future liabilities. The Council has continued to negotiate with claimants' representatives and settle where it is recognised that a claim would be successful. These accounts include the expected costs of settlement for claims received up to 29 February 2016. The level of claims received after 29 February to the date of signing these accounts were not material.

National Non-Domestic Rates

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

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

7.8 Reserves

7.8.1 The Council maintains two types of reserves:

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

7.8.2 Details of the reserves are set out below.

	31 March 2015 £m	31 March 2016 £m
Usable Reserves	626.0	895.7
Unusable Reserves	(1,854.0)	(1,738.5)
Total	**(1,228.0)**	**(842.8)**

7.8.3 The increase in the level of usable reserves is mainly as a result of the remaining unapplied capital receipts from the sale of the NEC Group, Grand Central and other non-current assets in the year.

7.8.4 Taking the usable and unusable reserves together the Council's net liabilities at 31 March 2016 have reduced by £385.2m to £842.8m. The reduction in net liabilities is detailed in paragraph 5.4 above.

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

8 Changes in Accounting Policy – Future Years

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

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

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

9 Future Revenue and Capital Expenditure Plans

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

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

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

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

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

9.6 On 23 June 2016 the referendum on European Union membership resulted in a vote to leave the European Union (Brexit). It is too early to determine what the impact of leaving the European Union will be on the Council. At present the government has not triggered Article 50 of the Lisbon Treaty and there continues to be uncertainty as to when it will be triggered and until that time negotiations on exit will not be started.

Whilst there is uncertainty in the financial markets and a lowering of the Bank of England base rate there may be other consequences impacting on the Council through, for example:

- Cessation of European grants, which the Council and partner organisations have received in the past;
- Long term changes in gilt yields and share values which may impact on pension fund assets and liabilities;
- Changes in investment plans by companies within the local economy;
- Changes in non-current asset values.

CORE FINANCIAL STATEMENTS 2015/16

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**
	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**
Balance at 31 March 2014	**85.8**	**348.3**	**4.4**	**27.5**	**44.6**	**142.4**	**653.0**	**(1,379.0)**	**(726.0)**
Movement in Reserves during 2014/15									
Surplus/(Deficit) on the provision of services	(136.4)		65.4				**(71.0)**		**(71.0)**
Other Comprehensive Income and Expenditure							**-**	(430.9)	**(430.9)**
Total Comprehensive Income and Expenditure	**(136.4)**	**-**	**65.4**	**-**	**-**	**-**	**(71.0)**	**(430.9)**	**(501.9)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	187.6	-	(65.3)	(11.2)	(28.8)	(38.3)	**44.0**	(44.1)	**(0.1)**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**51.2**	**-**	**0.1**	**(11.2)**	**(28.8)**	**(38.3)**	**(27.0)**	**(475.0)**	**(502.0)**
Transfers to/(from) Earmarked Reserves (Note 7)	0.8	(0.8)					**-**		**-**
Increase/Decrease in 2014/15	52.0	(0.8)	0.1	(11.2)	(28.8)	(38.3)	**(27.0)**	(475.0)	**(502.0)**
Balance at 31 March 2015	**137.8**	**347.5**	**4.5**	**16.3**	**15.8**	**104.1**	**626.0**	**(1,854.0)**	**(1,228.0)**
Movement in Reserves during 2015/16									
Surplus/(Deficit) on the provision of services	(193.4)		59.0				**(134.4)**		**(134.4)**
Other Comprehensive Income and Expenditure							**-**	519.6	**519.6**
Total Comprehensive Income and Expenditure	**(193.4)**	**-**	**59.0**	**-**	**-**	**-**	**(134.4)**	**519.6**	**385.2**
Adjustments between accounting basis and funding basis under regulations (Note 6)	208.3		(58.9)	295.8	(10.0)	(31.1)	**404.1**	(404.1)	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**14.9**	**-**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**
Transfers to/(from) Earmarked Reserves (Note 7)	(41.8)	41.8					**-**		**-**
Increase/Decrease in 2015/16	**(26.9)**	**41.8**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**
Balance at 31 March 2016	**110.9**	**389.3**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.5)**	**(842.8)**

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

2014/15 Gross Expenditure	2014/15 Gross Income	2014/15 Net Expenditure		Note	2015/16 Gross Expenditure	2015/16 Gross Income	2015/16 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
20.1	(13.5)	6.6	Central services to the public		21.0	(12.2)	8.8
185.1	(33.1)	152.0	Cultural and Related Services	12	182.1	(32.5)	149.6
105.1	(44.2)	60.9	Environmental and Regulatory Services		105.1	(27.2)	77.9
68.3	(62.1)	6.2	Planning Services		47.4	(56.3)	(8.9)
1,178.7	(900.1)	278.6	Children's and Education Services		1,107.5	(862.0)	245.5
135.2	(33.1)	102.1	Highways and Transport Services	12	237.9	(36.9)	201.0
182.8	(289.1)	(106.3)	Housing Revenue Account (Local Authority Housing)		186.7	(293.3)	(106.6)
641.2	(571.1)	70.1	Housing General Fund		641.5	(586.9)	54.6
374.2	(96.7)	277.5	Adult Social Care		369.7	(101.5)	268.2
73.4	(81.9)	(8.5)	Public Health		85.5	(76.6)	8.9
(2.1)	(2.2)	(4.3)	Corporate and Democratic Core		1.3	(2.8)	(1.5)
46.4	-	46.4	Non Distributed Costs		24.6	-	24.6
3,008.4	**(2,127.1)**	**881.3**	**Total Continuing Operations excluding acquired services**		**3,010.3**	**(2,088.2)**	**922.1**
			Acquired Services				
-	-	-	Public Health - 0 to 5 years		8.3	(11.4)	(3.1)
3,008.4	**(2,127.1)**	**881.3**	**Total Cost Of Services**		**3,018.6**	**(2,099.6)**	**919.0**
137.5		137.5	Other Operating Expenditure	12, 13	104.2		104.2
324.7	(86.5)	238.2	Financing and Investment Income and Expenditure	14	315.1	(91.8)	223.3
5.4	(1,191.4)	(1,186.0)	Taxation and Non-Specific Grant Income	15	16.6	(1,128.7)	(1,112.1)
		71.0	**(Surplus) / Deficit on Provision of Services**				**134.4**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(116.1)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	20, 21, 22			(332.3)
		124.2	Impairment losses on non-current assets charged to the revaluation reserve	20, 21, 22			73.3
		423.1	Remeasurement of the net defined benefit liability	11			(261.2)
		431.2					**(520.2)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.4)	(Surplus) / deficit on revaluation of available for sale financial assets				0.7
		(0.4)					**0.7**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		-	Gain/(loss) adjustment on disposal of available for sale financial assets				(0.1)
		-					**(0.1)**
		430.8	**Other Comprehensive (Income) / Expenditure**				**(519.6)**
		501.8	**Total Comprehensive (Income) / Expenditure**				**(385.2)**

Balance Sheet

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

31 March 2015 £m		Note	31 March 2016 £m
4,761.3	Property, Plant and Equipment	20	4,855.3
246.1	Heritage Assets	22	249.8
10.8	Investment Property	21	10.0
28.4	Intangible Assets	23	25.6
32.1	Long Term Investments	24	32.2
77.6	Long Term Debtors	25	75.0
5,156.3	**Total Long Term Assets**		**5,247.9**
266.2	Short Term Investments	26	58.8
68.8	Assets Held for Sale	27	4.2
1.0	Inventories		1.2
311.7	Short Term Debtors	28	288.0
37.7	Cash and Cash Equivalents	29	66.4
685.4	**Total Current Assets**		**418.6**
(22.1)	Cash and Cash Equivalents	29	(34.5)
(603.8)	Short Term Borrowing	34	(430.5)
(342.7)	Short Term Creditors	30	(323.4)
(332.5)	Provisions	32	(283.3)
(1,301.1)	**Total Current Liabilities**		**(1,071.7)**
(13.6)	Long Term Creditors	31	(1.8)
(265.5)	Provisions	32	(68.4)
(2,668.0)	Long Term Borrowing	34	(2,771.9)
(527.9)	Other Long Term Liabilities	39	(507.8)
(2,293.6)	Net liability on defined benefit pension scheme	11	(2,087.7)
(5,768.6)	**Total Long Term Liabilities**		**(5,437.6)**
(1,228.0)	**Net Assets**		**(842.8)**
626.0	Usable Reserves	8	895.7
(1,854.0)	Unusable Reserves	9	(1,738.5)
(1,228.0)	**Total Reserves**		**(842.8)**

Cash Flow Statement

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

2014/15		Note	2015/16
£m			£m
(71.0)	Net Surplus/(Deficit) on the provision of services		(134.4)
358.7	Adjustments to net Surplus/Deficit on the provision of services for non cash movements	38	460.2
(122.6)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities	38	(478.3)
165.1	**Net cash flows from Operating Activities**		**(152.5)**
(260.5)	Investing Activities	36	254.1
91.6	Financing Activities	37	(85.3)
(3.8)	**Net increase/(decrease) in cash and cash equivalents**		**16.3**
19.4	Cash and cash equivalents at the beginning of the reporting period		15.6
15.6	**Cash and cash equivalents at the end of the reporting period**	**29**	**31.9**

Note 1
Accounting Policies

i. General Principles

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

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

ii. Accruals of Income and Expenditure

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

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

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

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

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

iii. Fair Value Measurement

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

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

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

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

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

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

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

iv. Exceptional Items

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

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

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

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

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

vi. Employee Benefits

Benefits Payable During Employment

Short Term Benefits

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

Other Long Term Benefits

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

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

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

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

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

The Local Government 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 3.2% based on the indicative rate of return on AA rated corporate bond yields;
- The assets of the West Midlands Local Government Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price;
    - unquoted securities – professional estimate;
    - unitised securities – current bid price;
    - property – market value.

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

Service cost comprising:

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

Re-measurements comprising:

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

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

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

Discretionary Benefits

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

vii. Revenue Expenditure Funded from Capital under Statute

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

viii. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. An adjustment is, therefore, made to remove depreciation, amortisation and revaluation and impairment losses from the General Fund and Housing Revenue Account through Note 6, Adjustments Between Accounting Basis and Funding Basis under Regulations, and the Movement in Reserves Statement and to replace them by the statutory contribution from the General Fund or Housing Revenue Account Balance to the Capital Adjustment Account.

ix. Government Grants and Contributions

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

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

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

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

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

x. Overheads and Support Services

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

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

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

xi. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

From 1 April 2010 all additions and all material assets revalued (over £5m) are accounted for on a component basis. As components are added, any component being replaced is derecognised. On derecognising components where the component is within a non separated component bundle, the depreciation is apportioned on a straight line basis and derecognised accordingly. In addition, where the 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.

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

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

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

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, the accounting treatment is:

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

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

Useful Life

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

Amounts, in excess of £10,000, received from a disposal are categorised as capital receipts. A proportion of receipts relating to housing disposals (for 2015/16, 75% of the receipt net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance through the Movement in Reserves Statement.

xii. Heritage Assets

Heritage assets are defined as assets which have historical, artistic, scientific, technological, geographical or environmental qualities that are held in trust for future generations because of their cultural, environmental or historical associations and contribution to knowledge and culture. They include museums' and libraries' heritage collections, historic buildings and the 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 community assets within Property, Plant and Equipment.

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

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

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

xiii. Intangible Assets

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

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

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

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

xiv. Investment Properties

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

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

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

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

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

xv. Service Concession Arrangements

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

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

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

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

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

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

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

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

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

xvi. Leases

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

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

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

The Council as Lessee

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

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

Lease rentals receivable are apportioned between:

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

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

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

<u>Operating Leases</u>

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

xvii. Interests in Companies and Other Entities

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

xviii. Accounting for Schools

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

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

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

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

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

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

xix. Financial Instruments

Financial Liabilities

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

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

Instruments Entered Into Before 1 April 2006

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

xx. Cash and Cash Equivalents

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

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

xxi. Inventories and Long Term Contracts

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

xxii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

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

Provision for Back Pay Arising from Equal Pay Claims

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xxiii. Reserves

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

Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance through the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

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

xxiv. Council Tax and National Non-Domestic Rates

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

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

- While the Council Tax and National Non-Domestic Rates income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is the Council's demand on the Fund for that year, plus/(less) the Council's share of any surplus/(deficit) on the Collection Fund for the previous year. This amount may be more or less than the accrued income for the year in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Cash Flow Statement

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

xxv. Business Improvement Districts

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

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

xxvi. Events After the Reporting Period

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

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

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

xxvii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xxviii. Council Acting as Agent

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

xxix. Value Added Tax

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

xxx. Foreign Currency Translation

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

xxxi. Acquired Operations

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

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

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

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

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

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

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

Note 3
Critical Judgements in Applying Accounting Policies

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

Going Concern
The Council is continuing to face financial challenges as a result of the ongoing reduction in central government support and the need to fund budget pressures, including those arising from equal pay claims. The Council has developed its medium to long term financial strategy, detailed in the Council Business Plan 2016+, and is meeting these budget challenges by developing multi-year savings plans and through the generation of capital receipts. The Council has successfully delivered significant savings plans previously and has appropriate contingency plans in place to provide protection against any timing differences in the generation of capital receipts or any shortfall in the delivery of savings plans. As such the Council has identified that it has general fund balances and can redesignate earmarked reserves to meet the shortfall or it can delay the timing of its Minimum Revenue Provision contributions and equal pay settlements. On this basis, the Council considers that it can continue to meet its liabilities as they fall due and the financial statements have been prepared on a going concern basis.

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

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

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

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

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

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

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

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

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

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

Specialist Assets

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

Leases

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

Sale of the NEC

As part of the arrangements involved in the sale of the NEC Group, the Council has continued to guarantee the £73m National Exhibition Centre (Developments) Plc loan stock and has recognised the liability in its balance sheet. The Council has determined that regulation 30(D) of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended to 1 April 2016 does not apply.

The Council has also determined that the receipt from the reassignment of the lease for halls that were leased through National Exhibition Centre (Developments) Plc should be accounted for as a capital receipt.

The Council has determined that the investment in the National Exhibition Centre (Developments) Limited meets the definition of capital expenditure under the scope of Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended to March 2016.

The Better Care Fund

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

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

- Activity where funding was received and expended under the control of Clinical Commissioning Groups has been accounted for in their accounts

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

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

The Council acting as Agent

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

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

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

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

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

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

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

The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment Valuations	Valuations are undertaken on the basis of a five year rolling programme, which is supplemented by annual reviews to reflect significant changes in market values. HRA assets are subject to a full revaluation every five years, following DCLG guidance, with a desk top review in the intervening years. The valuation of specialist assets using Depreciated Replacement Cost includes the use of building cost factors. For those assets not valued in year, updated building factors have been applied to estimate carrying values at 31 March.	For those assets not valued this year, an increase of 1% in the average valuation of assets that have not been amended for a variation in building indices would have the effect of increasing the carrying value of these assets by £7.7m, with a corresponding increase in the level of unusable reserves.
Heritage Asset Valuations (Museums' and Libraries' Archive Collections)	In the absence of recent transactions in a number of assets held in the Museum and Libraries Collections, the Council has used the associated insurance valuations as the most reasonable measure of value of the assets.	If the value of the assets were to vary from the insurance valuations by 1%, this would change the carrying value of Heritage Assets on the Balance Sheet by £2.3m with a corresponding adjustment in the Revaluation Reserve.
Investment Property and Surplus Assets Valuations	When the fair value of Investment Properties and Surplus Assets cannot be measured based on quoted prices in active markets (that is, Level 1 inputs) their fair value is measured using Level 2 inputs, quoted prices for similar assets in active markets at the balance sheet date. Where possible the inputs are based on observable data, but where this is not possible, judgement is required to establish fair value. These judgements include consideration of risk and uncertainty, and changes in these assumptions could affect the fair value of the Council's assets. Where Level 1 inputs are not available the Council uses the expertise of Birmingham Property Services within the Council to provide valuations completed in accordance with the methodologies set out in the professional standards of the Royal Institution of Chartered Surveyors.	The Council uses a variety of techniques when valuing its investment and surplus properties under IFRS 13, *Fair Value Measurement*. The unobservable inputs used in the fair value measurement include management assumptions on future commercial potential, occupancy levels etc. Significant changes in any of the unobservable inputs could result in a variation in the fair value measurement of these assets. An increase of 1% in the valuation of investment properties and surplus assets would increase the carrying values on the balance sheet by £0.2m.

Item	**Uncertainties**	**Effect if Actual Results Differ from Assumptions**
Measure of financial instrument fair values	The Council has assessed the fair value of some of its financial investments by using the present value of future cashflows discounted at market rates.	Given the complex nature of the underlying assumptions and the uncertainty regarding future market rates, the fair value is the best estimate that can be made. A 1% change in long term interest rates would result in a £2.2m change in the fair value of the Council's financial investments.
Long term obligations under, for example, PFI schemes	For service concessions, the fair value of the long term obligations has been based on financial models, including future assumptions on inflation and interest rates.	The financial models assume an inflation rate of 2.5% If the annual inflation rate was to increase to 3.5% each year of the contracts, this would result in an increase in running costs of £29.2m in 2016/17, and a further £410m over the remaining lives of the contracts.
Equal Pay	The Council has included a provision of £310.1m for the settlement of claims for back pay arising from the Equal Pay initiative. The Council has based its estimate on the number of claims received and on historical information on settlement of similar claims and on the current negotiations with claimants' representatives.	An increase of 1% in the average level of settlement would have the effect of increasing the provision required by £3.1m.
NNDR Appeals	An estimate of the impact of NNDR appeals has been based on the number of claims lodged and the experience of levels of success in settlement of those claims.	An increase of 1% in the average level of settlement would have the effect of £6.4m on the provision set aside.
Defined Benefit Pension Liability	The estimate for the Local Government Pension Scheme has been based on the latest actuarial valuation and transaction information from 2015/16.	A number of factors can impact on the valuation of the scheme liability. A sensitivity analysis of the factors is set out in more detail in Note 11 of these financial statements.

Note 5
Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Strategic Director – Finance & Legal on 22 June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Transfer of Academy Schools

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

Transfer of Council Services

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

Future Resource Allocations

The Council faces reducing Government grants, reducing capital receipts and lower income from services. These pose challenges to the financial resilience of the Council. In this context, the Council's Business Plan 2016+ sets out medium to long-term strategies for business changes and the management and development of its services. A key focus of business planning has been the achievement of the Council's priority outcomes through the adoption of a core set of corporate principles to inform service and organisational redesign where appropriate. The Council is planning to meet its anticipated expenditure reductions through a number of activities, including potential staff redundancies in 2016/17.

Combined Authority

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

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

Sutton Coldfield Parish Council

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

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

Note 6
Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

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

General Fund Balance

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

Housing Revenue Account Balance

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

Major Repairs Reserve

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2015/16	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	53.1	2.2	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account/CAA)	66.0	-	-	-	-
Council Tax and NDR (transfers to/from the Collection Fund)	9.1	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	(4.7)	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(250.4)	(11.3)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	727.8	55.1	-	-	36.8
Total Adjustments to Revenue Resources	**600.9**	**46.0**	**-**	**-**	**36.8**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(554.9)	(27.2)	579.8	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	4.6	-	(4.6)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	201.4	-	(201.4)	-	-
Reclassification of grants originally treated as capital grants	-	-	-	-	-
Share of capital receipts received due to third parties	72.9	-	(72.9)	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	6.6	-	(6.6)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(37.8)	-	37.8	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(114.4)	(19.8)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(8.8)	(20.1)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(392.6)**	**(104.9)**	**294.3**	**37.8**	**-**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(22.2)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(9.5)	-	-
Capital Receipts arising from investment restructuring	-	-	21.0	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(47.8)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(67.2)
Cash payments in relation to deferred capital receipts	-	-	12.0	-	-
Other	-	-	0.2	-	(0.7)
Total Adjustments to Capital Resources	**-**	**-**	**1.5**	**(47.8)**	**(67.9)**
Total Adjustments	**208.3**	**(58.9)**	**295.8**	**(10.0)**	**(31.1)**

2014/15	General Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m
Adjustments to Revenue Resources					
Adjustments by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:					
Pension costs (transferred to/from the Pensions Reserve)	63.1	2.8	-	-	-
Financial Instruments (transferred to/from the Financial Instruments Adjustments Account/CAA)	33.6	-	-	-	-
Council Tax and NDR (transfers to/from the Collection Fund)	(6.0)	-	-	-	-
Holiday Pay (transferred to/from the Accumulated Absences Reserve)	0.9	-	-	-	-
Equal pay settlements (transferred to/from the Unequal Pay Backpay Account)	(67.5)	(7.9)	-	-	-
Reversal of entries included in the Surplus/Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	265.9	56.3	-	-	43.4
Total Adjustments to Revenue Resources	**290.0**	**51.2**	**-**	**-**	**43.4**
Adjustments between Revenue and Capital Resources					
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(34.0)	(36.1)	57.9	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	2.7	-	(2.7)	-	-
Contribution to the costs of Equal Pay (funded by the Capital Receipts Reserve)	37.6	-	(37.6)	-	-
Reclassification of grants originally treated as capital grants	9.6	-	-	-	(9.6)
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	5.7	-	(5.7)	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	(39.3)	-	39.3	-
Provision for the repayment of debt (transfer from the Capital Adjustment Account)	(109.9)	(11.7)	-	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(14.1)	(29.4)	-	-	-
Total Adjustments between Revenue and Capital Resources	**(102.4)**	**(116.5)**	**11.9**	**39.3**	**(9.6)**
Adjustments to Capital Resources					
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(17.5)	-	-
Use of the Capital Receipts Reserve to repay debt	-	-	(7.7)	-	-
Use of the Major Repairs Reserve to finance capital expenditure	-	-	-	(68.1)	-
Application of capital grants to finance capital expenditure	-	-	-	-	(72.1)
Cash payments in relation to deferred capital receipts	-	-	2.1	-	-
Other	-	-	-	-	-
Total Adjustments to Capital Resources	**-**	**-**	**(23.1)**	**(68.1)**	**(72.1)**
Total Adjustments	**187.6**	**(65.3)**	**(11.2)**	**(28.8)**	**(38.3)**

Note 7
Transfers To/(From) Earmarked Reserves

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

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

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

Note 8
Usable Reserves

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

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

Usable Reserves	Balance at 31 March 2015	Transfers out 2015/16	Transfers In 2015/16	Balance at 31 March 2016
	£m	£m	£m	£m
Section 256 Grant from the NHS	17.9	(11.5)	6.5	12.9
Public Health	17.1	(12.0)	2.1	7.2
Troubled Families Grant	3.5	(3.5)	-	-
Highways PFI Grant	57.6	(13.5)	30.9	75.0
Weekly Collection Support Scheme	9.1	(9.1)	0.3	0.3
Non-Schools' DSG	12.6	(5.4)	-	7.2
Other Grant Reserves	26.9	(6.0)	14.4	35.3
Total Revenue Grant Reserves	**144.7**	**(61.0)**	**54.2**	**137.9**
Schools' Balances	66.0	(5.4)	2.9	63.5
General Fund Balances	137.8	(31.3)	4.4	110.9
Housing Revenue Account	4.5	-	0.1	4.6
HRA Major Repairs Reserve	15.8	(47.8)	37.8	5.8
Capital Receipts Reserve	16.2	(317.1)	613.0	312.1
Capital Grants Unapplied	104.2	(67.9)	36.7	73.0
Total Usable Reserves	**626.0**	**(613.6)**	**883.3**	**895.7**

Details of the major usable reserves are set out below.

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Earmarked Reserves – there are a large number of small value reserves which cover a wide range of services that have been set aside to support future years' service delivery. The reserves cover a wide range of areas and include, for example, resources earmarked for troubled families, special educational needs reform, the growth strategy for HS2, subvention for major events, replacement IT systems and repairs and maintenance for specific service chargeable buildings.

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

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

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

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

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

Capital Receipts Reserve – reflects the income received from the disposal of capital assets prior to being used to fund future capital expenditure or for the redemption of debt. Capital receipts cannot be used to fund revenue expenditure except where allowed by statue, for example, to meet costs of Equal Pay. The level of the reserve has increased significantly in 2015/16, reflecting the unapplied proceeds from the sale of the NEC Group and of Grand Central.

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

Note 9
Unusable Reserves

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

31 March 2015 £m		31 March 2016 £m
743.8	Revaluation Reserve	977.1
0.8	Available for Sale Financial Instruments Reserve	0.2
271.4	Capital Adjustment Account	(290.8)
(29.7)	Financial Instruments Adjustment Account	(27.9)
(2,293.6)	Pensions Reserve	(2,087.7)
50.1	Deferred Capital Receipts Reserve	30.0
(13.8)	Collection Fund Adjustment Account	(22.9)
(561.3)	Equal Pay Back Pay Account	(299.6)
(21.6)	Accumulated Absences Account	(16.9)
(1,854.0)	**Total Unusable Reserves**	**(1,738.5)**

Revaluation Reserve

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

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

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

2014/15 £m	2014/15 £m		2015/16 £m	2015/16 £m
	797.8	**Balance at 1 April**		**743.8**
217.7		Upward revaluation of assets	410.8	
(101.6)		Downward revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(78.5)	
(124.2)		Impairment (losses)/reversals not charged to the Surplus/(Deficit) on the Provision of services	(73.3)	
	(8.1)	Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services		259.0
(9.4)		Difference between fair value depreciation and historical cost depreciation	(8.3)	
(25.7)		Accumulated gains on assets sold or scrapped	(17.4)	
(10.8)		Adjustment for Transfer of land to Investment Property	-	
	(45.9)	Amount written off to the Capital Adjustment Account		(25.7)
	743.8	**Balance at 31 March**		**977.1**

Capital Adjustment Account

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

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

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

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

2014/15 £m	2014/15 £m		2015/16 £m	2015/16 £m
	295.6	**Balance at 1 April**		**271.4**
		Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
(10.7)		Charges for depreciation and impairment of non current assets	15.1	
(180.8)		Revaluation losses on Property, Plant and Equipment	(182.2)	
(25.7)		Amortisation and impairment of intangible assets	(7.5)	
(21.7)		Impairment of Capital Debtors/Grants/Investments	(68.7)	
(53.2)		Revenue expenditure funded from capital under statute	(98.1)	
(140.4)		Amounts of non current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES	(617.8)	
	(432.5)			(959.2)
	45.9	Adjusting amounts written out of the Revaluation Reserve		25.7
	(386.6)	Net written out amount of the cost of non-current assets consumed in the year		(933.5)
		Capital financing applied in the year:		
17.7		Use of the Capital Receipts Reserve to finance new capital expenditure	22.1	
68.2		Use of the Major Repairs Reserve to finance new capital expenditure	47.8	
45.5		Capital grants and contributions credited to the CIES that have been applied to capital financing	82.0	
72.1		Application of grants to capital financing from the Capital Grants Unapplied Account	67.2	
7.7		Application of capital receipts to repay debt	9.5	
121.6		Provision for the financing of capital investment charged against the General Fund and HRA balances	134.2	
43.5		Capital expenditure charged against the General Fund and HRA balances	28.9	
	376.3			391.7
	(13.5)	Amortisation of Investments debited to the CIES		-
	-	Generation of capital receipt from investment restructuring		(21.0)
	-	Financing of capital grant repayment		0.7
	(0.4)	Repayment of long term debtors		(0.1)
	271.4	**Balance at 31 March**		**(290.8)**

Financial Instruments Adjustment Account

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

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

Pensions Reserve

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

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

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

Deferred Capital Receipts

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

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

Collection Fund Adjustment Account

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

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

Available for Sale Financial Instruments Reserve

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

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

Equal Pay Back Pay Account

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

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

Accumulated Absences Account

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

2014/15 £m		2015/16 £m
(20.8)	**Balance at 1 April**	**(21.6)**
(0.9)	Settlement or cancellation of accrual made at the end of the preceding year	4.7
0.1	Amounts accrued at the end of the current year	-
(0.8)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4.7
(21.6)	**Balance at 31 March**	**(16.9)**

Note 10
Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

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

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

In 2015/16, the Council paid £38.5m (2014/15: £36.9m) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 14.1% from April to August and 16.48% from September to March (2014/15: 14.1%) of pensionable pay. There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2016/17 financial year are estimated to be £39.3m on the basis of employer contributions of 16.48%.

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

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

NHS Pension Scheme

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

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

In 2015/16, the Council paid £0.2m (2014/15: £0.2m) to the NHS Pension Scheme in respect of employees' retirement benefits, representing 14.3% (2014/15: 14.0%) of pensionable pay.

There were no contributions remaining payable at the year-end. The contributions due to be paid in the 2016/17 financial year are estimated to be £0.2m on the basis of an employer contribution rate of 14.3%.

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

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

Note 11
Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

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

The principal risks to the Council of the scheme are:

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

These risks are mitigated, to a certain extent, by the statutory requirements to charge to the General Fund and the Housing Revenue Account the amounts required by statute as described in Note 1, Accounting Policies.

Transactions relating to Post-employment benefits

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

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

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

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

Pension Assets and Liabilities Recognised in the Balance Sheet

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

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

Reconciliation of the Movements in the Fair Value of Scheme Assets

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

Local Government Pension Scheme assets

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

	31 March 2015				31 March 2016			
	Quoted	Unquoted	Total	Percentage of Total	Quoted	Unquoted	Total	Percentage of Total
	£m	£m	£m	%	£m	£m	£m	%
Equity Instruments:								
UK Quoted	317.1		317.1	9.5%	253.4		253.4	7.8%
UK Unquoted		55.5	55.5	1.7%		49.6	49.6	1.5%
Global Quoted	242.0		242.0	7.3%	363.2		363.2	11.1%
Global Unquoted		345.7	345.7	10.4%		322.0	322.0	9.9%
Europe	258.0		258.0	7.8%	240.3		240.3	7.4%
Japan	72.5		72.5	2.2%	114.9		114.9	3.5%
Pacific Basin	142.6		142.6	4.3%	124.6		124.6	3.8%
North America	255.0		255.0	7.7%	251.7		251.7	7.7%
Emerging Markets	275.2		275.2	8.3%	242.2		242.2	7.4%
Sub-total equity	**1,562.4**	**401.2**	**1,963.6**	**59.1%**	**1,590.3**	**371.6**	**1,961.9**	**60.1%**
Bonds:								
UK Government	261.6		261.6	7.9%		247.5	247.5	7.6%
Other	353.7		353.7	10.6%	191.5	146.2	337.7	10.3%
Sub-total bonds	**615.3**	**-**	**615.3**	**18.5%**	**191.5**	**393.7**	**585.2**	**17.9%**
Property:								
UK	203.8		203.8	6.1%		195.6	195.6	6.0%
Overseas	-		-	-		-	-	-%
Property Funds	86.4		86.4	2.6%		78.0	78.0	2.4%
Sub-total property	**290.2**	**-**	**290.2**	**8.7%**		**273.6**	**273.6**	**8.4%**
Alternatives:								
Commodities	-		-	-	-	-	-	-
Infrastructure	113.0		113.0	3.4%	7.0	95.9	102.9	3.2%
Absolute Return	206.1		206.1	6.2%		171.6	171.6	5.3%
Sub-total Alternatives	**319.1**	**-**	**319.1**	**9.6%**	**7.0**	**267.5**	**274.5**	**8.4%**
Cash:								
Cash Instruments	39.2		39.2	1.2%		121.9	121.9	3.7%
Cash Accounts	96.7		96.7	2.9%		48.5	48.5	1.5%
Sub-total Cash	**135.9**	**-**	**135.9**	**4.1%**		**170.4**	**170.4**	**5.2%**
Total assets	**2,923.0**	**401.2**	**3,324.2**	**100.0%**	**1,788.8**	**1,476.8**	**3,265.6**	**100.0%**

Basis for estimating assets and liabilities

Liabilities for both the Local Government Pension Scheme and the unfunded Teachers' Pension Scheme have been assessed by Mercers Human Resource Consulting Ltd, an independent firm of actuaries. The assessment has been on an actuarial basis using the projected unit method, an estimate of the pensions that will have to be paid in future years dependent on assumptions about mortality rates, salary levels etc. The estimates for the Local Government Pension Scheme have been based on the latest full valuation of the scheme as at 31 March 2014. The principal assumptions used by the actuary have been:

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

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

	Impact on the Defined Benefit Obligation in the Scheme		
	Change in assumption	Impact on Council Liability	Impact on Council Deficit
	£m	%	%
Longevity assumptions (increase by 1 year)	164.0	3.1	7.9
Pension increase assumptions (increase by 0.1%)	82.4	1.5	3.9
Salary increase limited to 1% for further 4 years	(94.7)	(1.8)	(4.5)
Discount scheme liability assumptions (increase by 0.1%)	(91.6)	(1.7)	(4.4)

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation will be carried out as at 31 March 2016 and will set contributions for the period for 1 April 2017 to 31 March 2020.

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

Note 12
Material Items of Income and Expense and Acquired Operations

On 1 May 2015, the Council completed the sale of its interests in the NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The Council received a payment of £250m to cover:

- the sale of equity in the National Exhibition Centre Limited;
- a premium for the sale of leasehold interests, detailed in Note 42; and
- net income from the operations of the NEC Group until completion of the sale.

Details of the gain/loss on disposal of the NEC Group are set out in Note 13 and in Note G5 to these accounts.

Following the sale of the NEC Group, the Council has impaired its investment in NEC (Developments) Limited by £66.3m to reflect the net residual value of the company. The impairment has been included in the Comprehensive Income and Expenditure Statement within Cultural and Related Services.

The substantial improvements to New Street Station have been managed with Network Rail in two elements, namely, New Street Gateway and Grand Central. Grand Central opened to the public on 24 September 2015. On 11 February 2016, the Council completed the sale of its head lease interest in Grand Central, for which the Council received a premium of £329m. Details of the gain/loss on disposal of Grand Central are set out in Note 13 to these accounts.

As part of the partnership arrangement undertaking the developments at New Street Station, Network Rail was entitled to a share of any surplus on the sale of Grand Central. A payment of £72.9m was paid to Network Rail as its share of the receipt and is accounted for in the Comprehensive Income and Expenditure Statement within Highways and Transport Services.

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

Note 13
Other Operating Expenditure

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

2014/15		2015/16
£m		£m
0.1	Parish Council Precepts	-
3.8	Enterprise Zone Growth Payment	5.5
54.5	Integrated Transport Authority Levy	51.6
0.3	Environment Agency Levy	0.3
5.7	Payments re: Housing Capital Receipt Pool	6.6
-	Loss on Disposal of the NEC (ref Note G5)	59.2
-	(Gain) on Disposal of Grand Central	(112.1)
73.1	(Gains)/Losses on the Disposal of other non-current assets	93.1
137.5	**Total**	**104.2**

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

Note 14
Financing and Investment Income and Expenditure

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

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

Note 15
Taxation and Non Specific Grant Income and Expenditure

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

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

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

Note 16
Trading Operations

Trading operations are those activities where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. In 2015/16, the Council reviewed its trading units to ensure that the trading activities reported continued to meet the criteria detailed above.

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

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

Details of Trading Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 17
Grant Income

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

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

2014/15 £m		2015/16 £m
	Capital Grants	
29.7	Education Funding Agency (formerly DSCF fund)	62.1
0.2	Demographic Growth	-
-	Lottery	0.8
2.0	Section 106/278	0.5
4.0	Centro	-
3.4	Department of Health - Community Capacity	3.1
8.7	Centro - Integrated Transport Block	5.2
-	Disabled Facilities	0.2
2.2	European Regional Development Fund	0.8
4.4	Homes & Community Agency - New Build Programme	3.3
4.7	Department for Transport (inc. Cycle Ambition)	2.5
1.0	Home and Communities Agency	0.7
1.2	Growing Places	0.2
-	Local Growth Fund	14.4
-	Skills Funding Agency	2.0
-	Urban Broadband Grant	1.0
-	Integrated Transport Authority	1.8
4.0	Contribution from Developers (Paradise)	-
2.4	Other	5.1
67.9	**Capital Grants credited to Taxation and Non Specific Grant Income**	**103.7**
	Capital Grants funding Revenue Expenditure under Statute credited to Cost of Services	
2.0	A45 Road Improvement	3.0
1.0	Centro - Gateway	-
4.1	Disabled Facilities	4.4
3.2	Urban Broadband Grant	1.9
8.6	European Regional Development Fund	5.1
2.2	Other	0.6
21.1	**Total Capital Grants funding Revenue Expenditure Under Statute**	**15.0**
89.0	**Total Capital Grants Received**	**118.7**

All Capital Grants received are either non-conditional or the conditions have been met, therefore there are no entries to the Capital Grants Receipts in Advance Account for 2015/16. The Capital Grants received have been credited to the Taxation and Non Specific Grant Income line on the Comprehensive Income and Expenditure Statement except where the grant is used to finance Revenue Expenditure funded from Capital under Statute (REFCUS).

Note 18
Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Education Funding Agency (EFA) through the Dedicated Schools Grant (DSG). An element of DSG is recouped by the EFA to fund academy schools in Birmingham. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2014. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2015/16 are as follows:

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

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

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

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

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

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

	2014/15	**2015/16**
	£m	£m
Net expenditure in Directorate Analysis	**1,021.3**	**913.6**
Amounts in the Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis	75.5	31.5
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(215.5)	(26.1)
Cost of Services in Comprehensive Income and Expenditure Statement	**881.3**	**919.0**

Reconciliation to Subjective Analysis

2015/16	Directorate Analysis	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	Cost of Services in CIES	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	Total
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(622.6)	61.9	6.6		(554.1)	(61.2)	(615.3)
Support service recharges	(390.1)	(64.1)		454.2	-		-
Collection Fund Surplus					-	(5.7)	(5.7)
Interest and investment income	(5.2)		5.2		-	(30.6)	(30.6)
Income from Council Tax					-	(271.2)	(271.2)
Government grants and contributions	(1,659.6)	7.6	106.5		(1,545.5)	(851.8)	(2,397.3)
Total income	**(2,677.5)**	**5.4**	**118.3**	**454.2**	**(2,099.6)**	**(1,220.5)**	**(3,320.1)**
Employee expenses	1,056.8	(72.7)			984.1		984.1
Other service expenses	2,118.1	(54.5)			2,063.6	66.1	2,129.7
Support service recharges	260.5	66.0		(454.2)	(127.7)		(127.7)
Collection Fund Deficit					-	15.8	15.8
Depreciation, amortisation and impairment	155.7	87.3	(92.5)		150.5		150.5
Interest payments					-	255.3	255.3
Precepts and levies			(51.9)		(51.9)	51.9	-
Payments to Housing Capital Receipts pool					-	6.6	6.6
(Gain)/Loss on disposal of non-current assets					-	40.2	40.2
Total expenditure	**3,591.1**	**26.1**	**(144.4)**	**(454.2)**	**3,018.6**	**435.9**	**3,454.5**
(Surplus)/Deficit on the Provision of Services	**913.6**	**31.5**	**(26.1)**	**-**	**919.0**	**(784.6)**	**134.4**

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

Note 20
Property, Plant and Equipment

The following tables analyse movements in the carrying values of non-current assets during the year. The PFI/Service Concession assets included in Property, Plant and Equipment have been restated for 2014/15 to reflect the highways activity incurred by the Council which is subsumed in the PFI contract.

Movements in Balances: 2015/16

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2015	**1,810.8**	**2,319.2**	**201.5**	**476.3**	**90.7**	**-**	**258.7**	**5,157.2**	**641.2**
Additions	100.5	83.9	24.3	47.0	0.9	-	86.4	**343.0**	28.0
Donations	-	-	-	-	-	-	-	**-**	-
Assets reclassified between categories	-	214.3	0.1	17.9	1.1	0.5	(233.5)	**0.4**	-
Assets reclassified (to)/from Held for Sale	-	(3.5)	-	-	-	-	-	**(3.5)**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	191.2	-	-	-	5.6	-	**196.8**	16.0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(66.4)	-	-	-	1.3	(1.4)	**(181.3)**	(5.2)
Derecognition - Disposals	(17.1)	(331.3)	(27.5)	(0.2)	-	-	-	**(376.1)**	(28.2)
Derecognition - Other	(1.4)	-	-	-	-	-	-	**(1.4)**	-
At 31 March 2016	**1,778.0**	**2,407.4**	**198.4**	**541.0**	**92.7**	**7.4**	**110.2**	**5,135.1**	**651.8**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(127.8)**	**(76.3)**	**(46.5)**	**-**	**-**	**-**	**(395.9)**	**(47.7)**
Depreciation charge	(37.8)	(50.2)	(21.3)	(20.1)	-	-	-	**(129.4)**	(25.4)
Depreciation written out to the Revaluation Reserve	39.3	85.7	-	-	-	-	-	**125.0**	4.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	118.8	-	-	-	-	-	**118.8**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	15.6	-	-	-	-	-	**(66.5)**	-
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)	-	-	-	-	-	**25.8**	-
Derecognition - Disposals	-	14.6	27.4	0.2	-	-	-	**42.2**	1.4
Assets reclassified (to)/from Held for Sale	-	0.2	-	-	-	-	-	**0.2**	-
At 31 March 2016	**(111.1)**	**(32.1)**	**(70.2)**	**(66.4)**	**-**	**-**	**-**	**(279.8)**	**(62.8)**
Net Book Value									
At 31 March 2016	**1,666.9**	**2,375.3**	**128.2**	**474.6**	**92.7**	**7.4**	**110.2**	**4,855.3**	**589.0**
At 31 March 2015	**1,665.5**	**2,191.4**	**125.2**	**429.8**	**90.7**	**-**	**258.7**	**4,761.3**	**593.5**

Movements in Balances: 2014/15 (Restated)

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2014	**1,769.8**	**2,498.9**	**254.5**	**540.1**	**89.5**	**-**	**189.6**	**5,342.4**	**581.7**
Additions	135.1	73.4	22.0	56.9	1.5	-	82.0	**370.9**	71.2
Donations	-	-	-	-	-	-	-	**-**	-
Assets reclassified between categories	-	2.0	0.1	10.7	0.2	-	(12.9)	**0.1**	-
Assets reclassified (to)/from Held for Sale	-	(63.9)	-	-	-	-	-	**(63.9)**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	55.5	(6.7)	-	-	-	-	**48.8**	(7.5)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(73.3)	(107.5)	-	-	-	-	-	**(180.8)**	(4.0)
Derecognition - Disposals	(17.7)	(128.4)	(68.4)	-	-	-	-	**(214.5)**	(0.2)
Derecognition - Other	(3.1)	-	-	(131.4)	(0.5)	-	-	**(135.0)**	-
Other movements in cost or valuation	-	(10.8)	-	-	-	-	-	**(10.8)**	-
At 31 March 2015	**1,810.8**	**2,319.2**	**201.5**	**476.3**	**90.7**	**-**	**258.7**	**5,157.2**	**641.2**
Accumulated Depreciation and Impairment									
At 1 April 2014	**(109.7)**	**(157.5)**	**(129.1)**	**(147.0)**	**-**	**-**	**-**	**(543.3)**	**(45.5)**
Depreciation charge	(39.3)	(50.1)	(24.5)	(30.9)	-	-	-	**(144.8)**	(22.0)
Depreciation written out to the Revaluation Reserve	39.0	18.5	-	-	-	-	-	**57.5**	2.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	**-**	-
Impairment (losses)/reversals recognised in the Revaluation Reserve	(108.7)	(18.2)	10.6	-	-	-	-	**(116.3)**	15.2
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	73.3	62.0	-	-	-	-	-	**135.3**	1.9
Derecognition - Disposals	-	16.9	66.7	131.4	-	-	-	**215.0**	-
Assets reclassified (to)/from Held for Sale	-	0.6	-	-	-	-	-	**0.6**	-
Other movements in depreciation and impairment	0.1	-	-	-	-	-	-	**0.1**	-
At 31 March 2015	**(145.3)**	**(127.8)**	**(76.3)**	**(46.5)**	**-**	**-**	**-**	**(395.9)**	**(47.7)**
Net Book Value									
At 31 March 2015	**1,665.5**	**2,191.4**	**125.2**	**429.8**	**90.7**	**-**	**258.7**	**4,761.3**	**593.5**
At 31 March 2014	**1,660.1**	**2,341.4**	**125.4**	**393.1**	**89.5**	**-**	**189.6**	**4,799.1**	**536.2**

Revaluations

Operational (other than Housing)
The Council carries out valuations of its property assets over a five year cycle and reviews those assets that are not in the valuation cycle for the year to ensure that carrying values remain materially correct at the Balance Sheet date. Peter Jones, Fellow of the Royal Institution of Chartered Surveyors (FRICS), Director of Property and other similarly qualified staff in Birmingham Property Services, Economy Directorate, carried out the valuations. A Valuation Certificate was issued on 8 June 2016 in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors.

The effective date of the current year's valuation was 1 April 2015, with a review of any significant changes to assets during the year to ensure that any material changes in asset values at the Balance Sheet date were identified. The review concluded that, for assets valued at Depreciated Replacement Cost (DRC), there had been a significant increase in building costs during the year to 31 March 2016. As a result, the valuations reflect these higher building costs. During the annual revaluation exercise material assets were componentised in line with the accounting policy.

In light of the identified increase in building costs used to inform DRC valuations, a review was undertaken to assess the impact on the value of those assets not subject to revaluation in 2015/16. As a result, a desktop exercise was undertaken to update those values in the Balance Sheet, reflecting a more up to date value as at 31 March 2016.

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

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

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

Surplus Assets
A small number of assets have been deemed surplus to the requirement of the Council but do not yet meet the criteria to be classified as Assets Held for Sale. As such they have been reclassified as surplus assets, and revalued at 31 March 2016 at fair value, assessing the assets in their highest and best use, using Level 2 inputs.

Recurring Fair Value Measurements	Input level in Fair Value Hierarchy	Valuation technique used to measure Fair Value	31 March 2015 Fair Value (EUV) £m	31 March 2016 Fair Value £m
Highest and Best Use	Level 2	The fair value of surplus properties has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's Property Portfolio. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs is significant, leading to the properties being categorised as level 2 on the fair value hierarchy.	0.4	7.4

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

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	**Total Property, Plant and Equipment**
	£m	£m	£m	£m	£m	£m	£m	**£m**
Carried at Historical Cost			148.0	541.0	92.7		110.2	**891.9**
Valued at fair value as at:								
31 March 2016	1,778.0	1,601.2				7.4		**3,386.6**
31 March 2015		312.7	50.4					**363.1**
31 March 2014		150.9						**150.9**
31 March 2013		115.5						**115.5**
31 March 2012		227.1						**227.1**
Total cost or valuation	**1,778.0**	**2,407.4**	**198.4**	**541.0**	**92.7**	**7.4**	**110.2**	**5,135.1**

Impairment:

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

Capital Commitments

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

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

Capitalisation of Borrowing Costs

The Council has adopted an accounting policy of capitalising borrowing costs in relation to qualifying assets. In 2015/16 the amount of borrowing costs capitalised during the period was £6.3m (2014/15: £5.5m). The interest does not relate to a specific loan and was calculated using the Council's average borrowing rate in the year expenditure was incurred. This was 4.92% in 2015/16 (2014/15: 4.70%). For 2015/16, interest capitalised by scheme was as follows:

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

Note 21
Investment Property

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

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

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

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

Note 22
Heritage Assets

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

Heritage Assets Held By the Council:

	Museum collections	**Historic buildings**	**Public Art**	**Libraries and Archive collections**	**Civic Regalia and Plate**	**Total Assets**
	£m	£m	£m	£m	£m	£m
01 April 2014						
- At Cost	3.6	11.1	0.4	-	-	15.1
- At Valuation	213.3	-	-	15.5	1.8	230.6
Revaluations	0.4	-	-	-	-	0.4
31 March 2015	**217.3**	**11.1**	**0.4**	**15.5**	**1.8**	**246.1**
- At Cost	*3.6*	*11.1*	*0.4*	*-*	*-*	*15.1*
- At Valuation	*213.7*	*-*	*-*	*15.5*	*1.8*	*231.0*
31 March 2015	***217.3***	***11.1***	***0.4***	***15.5***	***1.8***	***246.1***
01 April 2015						
- At Cost	3.6	11.1	0.4	-	-	15.1
- At Valuation	213.7	-	-	15.5	1.8	231.0
Additions	-	-	0.1	-	-	0.1
Revaluations	0.7	-	-	2.9	-	3.6
31 March 2016	**218.0**	**11.1**	**0.5**	**18.4**	**1.8**	**249.8**
- At Cost	*3.7*	*11.1*	*0.5*	*2.9*	*0.1*	*18.3*
- At Valuation	*214.3*	*-*	*-*	*15.5*	*1.7*	*231.5*
31 March 2016	***218.0***	***11.1***	***0.5***	***18.4***	***1.8***	***249.8***

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

Where historical cost information is available, the Council has used this when compiling the balance sheet; otherwise insurance valuations have been used, where applicable. Where there is evidence of a movement in valuations as a result of material acquisitions or disposals, or a significant movement in comparable market values, a revaluation will be considered. The Council estimated that, from its insurance records, the value of the Library collection was £15.5m, the Museum's collection was £212.4m and the Civic Regalia was £1.8m as at 1 April 2011. The valuation of the Libraries and Archive collection has increased to £18.4m as at 31 March 2016.

Museum Collections

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

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

Historic Buildings and the Historical Environment

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

Public Art

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

Libraries and Archive Collections

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

Civic Regalia and Plate

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

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

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

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

Note 23
Intangible Assets

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

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

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

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

Note 24
Long Term Investments

Details of the Council's long term investments are summarised below. The increase in Investments in Subsidiary and Associated Companies reflects the crystallisation of the Council's guarantee to meet the loans entered into by the National Exhibition Centre (Developments) Plc following the sale of the NEC Group.

31 March 2015		31 March 2016
£m		£m
26.5	Investment in Subsidiary and Associated Companies	26.4
5.3	Available for Sale Financial Assets	5.5
0.3	Unquoted Equity Investment at Cost	0.3
32.1	**Total**	**32.2**

Note 25
Long Term Debtors

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

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

Note 26
Short Term Investments

Details of the amounts invested by the Council that are due for repayment within 12 months of the Balance Sheet date are detailed below. The Other Investments for 2014/15 included those loans to the NEC that formed part of the disposal transaction.

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

Note 27
Assets Held for Sale

The table below details the value of assets whose carrying amount will be recovered principally through a sale transaction rather than through its continuing use. The reduction in Property, Plant and Equipment held for sale relates to those non-current assets, held by the Council that formed part of the disposal of the NEC Group.

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

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

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

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

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

Note 28
Short-Term Debtors

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

31 March 2015		31 March 2016
£m		£m
62.4	Central government bodies	60.2
12.2	Other local authorities	8.2
9.7	NHS bodies	5.0
0.1	Public corporations and trading funds	1.7
227.3	Other entities and individuals	212.9
311.7	**Total**	**288.0**

Note 29
Cash and Cash Equivalents

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

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

Note 30
Short Term Creditors

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

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

Note 31
Long Term Creditors

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

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

Note 32
Provisions

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

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

<u>Equal Pay</u>

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

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

National Non-Domestic Rate Appeals (NNDR)

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

The Council, as Billing Authority, is required to make a provision for this liability on behalf of the major preceptors and itself. These accounts include a provision of £24.8m (2014/15: £21.7m) set aside to cover the Council's share of the total estimated unpaid liability relating to the settlement of all appeals received up to 31 March 2016. The remaining share of the liability is attributable to Central Government and the West Midlands Fire and Rescue Authority. The Council has assessed the likely cost of settling appeals, based upon the history of appeals settled to date and details of those appeals that are still outstanding. The information used in this modelling has been provided by the Valuations Office Agency (VOA).

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

Other Provisions

Details of the major items included in other provisions are:

NEC – Pension Liability

The Council has set aside a provision of £7.6m to meet the potential additional contribution to NEC's defined benefit pension schemes which are closed to accrual of future benefits and which were transferred to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, following the sale of the NEC Group. The Council has provided guarantees to the Trustees of the Fund and the Scheme to meet the current and future funding obligations that may arise in respect of the liabilities.

Equal Pay Legal Costs

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

Gateway/Grand Central

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

The Carbon Reduction Commitment

In 2016/17 the Council will have to purchase allowances as a result of mandatory participation in the Government's Carbon Reduction Commitment Energy Efficiency scheme (CRCEES). The quantity of allowances that will be purchased is dependent on the amount of energy used in properties that the Council occupies during 2015/16. In line with the recommended treatment by CIPFA, a provision for this cost has been made in the 2015/16 accounts based on the estimated energy consumed in 2015/16.

Note 33
Contingent Liabilities and Contingent Assets

Contingent Liabilities

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

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

   Direct
   For arrangements managed under its control, the Accountable Body function covers projects and programmes where the Council accesses European or Domestic grant support either for itself or on behalf of another organisation. In accepting this role the Council underwrites the financial performance and delivery of the activity along with compliance with the funding regulations. Under this role there is, depending on the nature of the particular scheme, a potential liability to the Council arising from either non-delivery of outputs, claiming of ineligible expenditure or from the disposal of assets prior to any clawback liability expiring. The Council has quantified this potential liability at 31 March 2016 of £424.2m and has identified future commitments of £2.6m.

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

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

2. The Council's final Housing Benefit claims for 2014/15 and 2015/16 are still being considered by the Department for Work and Pensions. There may be clawback of subsidy from the Council, above the level provided for in the accounts, which would reduce the level of benefit income shown and also reduce the General Fund balance carried forward.

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

   Whilst the provision reflects the forecast impact of claims made to date, there remain a number of uncertainties regarding any additional liabilities that the Council may face. There are major uncertainties surrounding the volume and timing of future claims and the determination of any settlements. The Council has developed a robust medium to long term financial plan, set out in Business Plan 2016+, which recognises the impact of future spending and funding requirements. The Council also has the ability to use capital receipts generated from 1 April 2013 to meet equal pay costs.

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

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

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

   Following a decision of the Supreme Court in March 2012 regarding Employers' Liability Policy Trigger Litigation, MMI's liability in respect of asbestos related claims has substantially increased. As a result, the Scheme of Arrangement was enacted in 2014/15 and an Administrator has been appointed.

   At present, the Administrator has announced a levy of 15% on claims paid since 1 October 1993 and the Council has incurred costs of £0.4m to cover its share together with a share, based on population, of the claims paid in respect of the former West Midlands County Council. The maximum remaining liability faced by the Council, less the payments already made, is £2.3m.

Contingent Assets

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

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

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

   The Council may receive future additional consideration from the disposal of the NEC Group comprising of deferred purchase consideration of £15m in the form of a loan note with a compounding yield of 8% per annum, up to £12m in respect of accumulated tax losses that will be remitted to the Council as the losses are utilised and an entitlement to proceeds equivalent to 3% of the equity value of any future sale of the NEC Group.

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

Note 34
Council Borrowing

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

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

Note 35
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

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

Note 36
Cash Flow Statement - Investing Activities

The cash flows from investing activities include the following:

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

Note 37
Cash Flow Statement - Financing Activities

The cash flows from financing activities include the following:

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

Note 38
Cash Flow Statement – Other Adjustments

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

2014/15		2015/16
£m		£m
144.8	Depreciation/Impairment charge	129.4
25.7	Amortisation of Intangible Assets	7.5
34.6	Amortisation of Financial Instruments	-
-	(Increase)/decrease in investments	(0.9)
46.7	Revaluation of Non-Current Assets	37.7
140.9	Derecognition of Non-Current Assets	403.0
(82.8)	(Increase)/Decrease in Debtors	26.3
58.9	Increase/(Decrease) in Creditors	48.3
-	(Increase)/Decrease in Inventories	(0.3)
(75.9)	Increase/(Decrease) in Provisions	(246.2)
65.8	Pensions Liability	55.4
358.7		**460.2**

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

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

Note 39
Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2015	31 March 2016	31 March 2015	31 March 2016
	£m	£m	£m	£m
Investments				
Loans and receivables	-	-	266.2	58.8
Available-for-sale financial assets	5.3	5.5	-	-
Unquoted equity investment at cost	0.3	0.3	-	-
Financial assets at fair value through profit and loss	-	-	-	-
Total	**5.6**	**5.8**	**266.2**	**58.8**
Investments that are not financial instruments	26.5	26.4	-	-
Total investments	**32.1**	**32.2**	**266.2**	**58.8**
Debtors				
Loans and receivables	38.3	46.0	5.2	3.7
Financial assets carried at contract amounts	-	-	225.6	196.3
Total	**38.3**	**46.0**	**230.8**	**200.0**
Debtors that are not financial instruments	39.3	29.0	80.9	88.0
Total debtors	**77.6**	**75.0**	**311.7**	**288.0**
Cash				
Loans and receivables			37.7	66.4
Total cash: asset			37.7	66.4
Financial liabilities at amortised cost			(22.1)	(34.5)
Total cash: liability			(22.1)	(34.5)
Borrowings				
Financial liabilities at amortised cost	(2,668.0)	(2,771.9)	(603.8)	(430.5)
Financial liabilities at fair value through profit and loss	-	-	-	-
Total	(2,668.0)	(2,771.9)	(603.8)	(430.5)
Borrowings that are not financial instruments	-	-	-	-
Total borrowings	**(2,668.0)**	**(2,771.9)**	**(603.8)**	**(430.5)**
Other Long Term Liabilities				
PFI and finance lease liabilities	(458.6)	(441.5)		
Total	(458.6)	(441.5)		
Transferred Debt	(69.3)	(66.3)		
Total long term liabilities	**(527.9)**	**(507.8)**		
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	(261.8)	(234.6)
Total	-	-	(261.8)	(234.6)
Creditors that are not financial instruments	(13.6)	(1.8)	(80.9)	(88.8)
Total creditors	**(13.6)**	**(1.8)**	**(342.7)**	**(323.4)**

Material Soft Loans Made by the Council

The Council has made the following material soft loans:

Warwickshire County Cricket Club was granted a loan of £20m in 2009 to support the major ground refurbishment undertaken. The loan is deemed to be a material soft loan and is carried in the accounts at £16.0m, pays a fixed interest rate of 5% and matures in 2045. During the development phase of the project, interest was rolled up in the loan. In 2015/16, Warwickshire Cricket Club exercised its right, under the terms of the loan agreement, to defer interest and principal repayment for two quarters from March 2013 and extend the loan maturity to make these payments. The club applied for a further 18 month interest and principal deferral, which was granted by the Council. Interest payments have resumed and a bullet principal payment is due in March 2020. All interest on the deferred payments is rolled up and the term of the loan has been extended to 2045.

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

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

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

Valuation Assumptions

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

Income, Expenses, Gains and Losses

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

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

Fair Value of Assets and Liabilities

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

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

Recurring Fair Value	**Input level in Fair Value Hierarchy**	**Valuation inputs and assumptions used to measure Fair Value**	**31 March 2016 Fair Value £m**
Borrowing			
- PWLB loans	Level 2	PWLB new loan certainty rate (maturity) based on published PWLB rates	(2,925.5)
- LOBO's, Bonds, Annuities and Quasi Loans	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	(798.7)
Other Long Term Liabilities – PFI and Finance Leases	Level 2	PWLB new loan certainty rate (maturity) based on published PWLB rates	(773.5)
Investments			
- Available for Sale financial assets	Level 3	Based on company performance	5.5
- Unquoted Equity Investments	Level 2	Valued at cost until reliable fair value can be established	0.3
Debtors			
- Capital and Revenue Loans	Level 2	An estimate of the rate payable for a new loan on the same terms, based on published gilt yields	51.2

Except for the financial assets and liabilities identified in the table above, the fair value of all other financial assets and liabilities is approximated at their carrying amount, for example, trade debtors, creditors, loans/stock maturing in the next 12 months and short term investments maturing in the next 12 months.

The fair values of financial liabilities are calculated as follows:

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

The fair values of financial assets are calculated as follows:

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

The fair value of the liabilities and assets at 31 March 2016 is higher than the carrying amount because the Council's portfolio of loans and investments includes fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss on liabilities (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates and a gain on assets (based on economic conditions at 31 March 2016) attributable to the commitment to receive interest below current market rates.

Note 40
Nature and Extent of Risks Arising from Financial Instruments

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

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

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

<u>Credit Risk</u>

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

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

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

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

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

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

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

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

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

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

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

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

	Amount outstanding	Historical experience of default	Estimated experience of default	Estimated maximum exposure to default and uncollectability at 31 March 2016	Estimated maximum exposure at 31 March 2015
	£m			£m	£m
Service investments	2.3	1.3	13%	0.4	0.7

Liquidity Risk

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

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

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

Market Risk

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

Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus/(Deficit) on the Provision of Services will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus/(Deficit) on the Provision of Services will rise
- Investments at fixed rates – the fair value of the assets will fall.

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

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

At 31 March 2016, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

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

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The above sensitivities have been prepared and based on loan debt and loan investments outstanding at 31 March 2016.

Price Risk

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

Note 41
Capital Expenditure and Capital Financing

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

	31 March 2015 £m	31 March 2016 £m
Opening Capital Financing Requirement	**4,291.5**	**4,347.5**
Capital Investment		
Property, Plant and Equipment	370.9	343.4
Heritage Assets	-	0.1
Intangible Assets	4.8	4.7
Revenue Expenditure funded from Capital under Statute	53.2	98.1
Capital Grant Repayment	-	0.7
Long Term Loans	0.6	8.5
Increase in Share Equity	2.9	111.8
Sources of Finance		
Capital Receipts	(17.7)	(22.2)
Government Grants and other Contributions	(117.7)	(149.1)
Sums set aside from Revenue:		
- Direct Revenue Contributions	(43.5)	(28.9)
- Use of Major Repairs Reserve	(68.2)	(47.8)
- Minimum Revenue Provision	(121.6)	(134.2)
- Capital Receipts set aside for debt redemption	(7.7)	(9.5)
Closing Capital Financing Requirement	**4,347.5**	**4,523.1**
Explanation of Movements in Year		
Increase in underlying need to borrow	5.4	147.0
Assets acquired under finance leases	1.1	1.0
Assets acquired under PFI contracts	49.5	27.6
Increase/(decrease) in Capital Financing Requirement	**56.0**	**175.6**
Movement in Year	**56.0**	**175.6**

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

Note 42
Leases

The Council has a significant number of leases, as summarised below.

Council as the lessee

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

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

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

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

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

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 contingent rents of £0.1m were payable (2014/15: nil).

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

Operating leases

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

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

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

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

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

<u>Council as the lessor</u>

Finance leases

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

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

The gross investment in the lease and the minimum lease payments will be received over the following periods:

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

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

Operating leases

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

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

31 March 2015 £m		31 March 2016 £m
11.7	Not later than one year	10.4
31.9	Later than one year and not later than five years	26.4
145.0	Later than five years	70.0
188.6	**Total**	**106.8**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 £2.6m contingent rents were receivable by the Council (2014/15 £2.6m).

The major reason for the changes in the gross investment in the lease for finance leases and the minimum lease payments receivable for operating leases is as a result of the disposal of the NEC Group. Prior to the sale of the NEC Group, the Council had a number of lease arrangements in place with the company through operating and finance leases for the land and buildings on the site. As part of the terms of the sale of the NEC Group, the existing leases were terminated and new leases signed and an element of the cash received covered the premium for the new lease arrangements. The Council now has the following lease arrangements in place in respect of NEC Group assets:

- 125 year leasehold interest in the land on which Resorts World Birmingham developments is situated
- 125 year core leasehold interest in the NEC site including exhibition halls and the Genting Arena
- 25 year leasehold interests in the ICC and Barclaycard Arena sites in the City Centre.

Leases - contingent rent

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

Note 43
Service Concession Arrangements

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

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

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

- Schools. There are 4 separate arrangements in place for the rebuild / refurbishment and management of a total of 26 schools within Birmingham. These arrangements are of varying duration and service providers: 10 schools from 2001/02 (for 32 years), 11 schools from 2004/05 (for 35 years), 4 schools from 2011/12 (for 25 years) and a single secondary school from 2013/14 ending 2038/39. The service provider is paid a Unitary Charge monthly for the duration of the contracts, with indexation applied annually as per the terms of each contract. Within each contract the Council retains both the schools' assets and the liability for future contract commitments in the balance sheet, with the exception of when schools gain Academy status. There are a number of PFI managed schools that have gained Academy status, a total of seven schools to date across the four separate school PFI contracts. Whilst the assets no longer belong to the Council and are thus removed from the balance sheet, the ongoing liability remains as a Council responsibility.

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

  - Raising highway standards
  - Upgrading street lighting and the Council's traffic management assets
  - Refurbishing the Council's tunnels
  - Maintaining specified street furniture.

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

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

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

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The movement in the liabilities to repay the contractors for capital expenditure incurred is as follows:

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

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

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

Note 44
Members' Allowances

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

Note 45
Officers' Remuneration

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

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

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

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

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

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

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

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

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

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

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

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

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

2014/15 (Restated)				2015/16		
Teaching Staff & Staff in Schools	Other Council Employees	**Total**	Remuneration band	Teaching Staff & Staff in Schools	Other Council Employees	**Total**
No	No	**No**		No	No	**No**
152	169	**321**	£50,000 - £54,999	164	191	**355**
116	85	**201**	£55,000 - £59,999	94	73	**167**
87	47	**134**	£60,000 - £64,999	90	41	**131**
58	53	**111**	£65,000 - £69,999	55	58	**113**
29	13	**42**	£70,000 - £74,999	32	17	**49**
18	8	**26**	£75,000 - £79,999	19	10	**29**
15	13	**28**	£80,000 - £84,999	14	6	**20**
8	13	**21**	£85,000 - £89,999	13	11	**24**
6	12	**18**	£90,000 - £94,999	4	12	**16**
4	12	**16**	£95,000 - £99,999	6	2	**8**
2	3	**5**	£100,000 - £104,999	3	6	**9**
2	2	**4**	£105,000 - £109,999		2	**2**
	3	**3**	£110,000 - £114,999		3	**3**
1	1	**2**	£115,000 - £119,999	1	1	**2**
1	3	**4**	£120,000 +		10	**10**
499	**437**	**936**		**495**	**443**	**938**

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

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

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

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

Note 46
Exit Packages

The costs of exit packages are amounts payable as a result of either the Council's decision to terminate an employee’s employment before the normal retirement date, or an employee’s decision to accept voluntary redundancy in exchange for those benefits. The following table provides information on the number of exit packages payable by the Council for the year, with total cost per band and total cost of both compulsory and other redundancies. The figures for 2014/15 have been restated to give a more detailed analysis of the breakdown by individual package range, and to exclude those staff employed in Voluntary Aided and Foundation schools.

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

In addition to the costs of exit packages identified above, the Council incurred costs of £0.3m in 2015/16 (£0.1m in 2014/15) relating to the provision of transitional support and training to employees whose further employment was considered to be at risk.

Exit packages include the costs of compulsory and voluntary redundancy, pension fund strain payments and other departure costs.

Note 47
Auditor Remuneration

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Council's external auditors.

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

Note 48
Related Parties

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

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

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

During 2015/16, works and services to the value of £422.7m, inclusive of VAT, were commissioned from related parties of which £30.4m remains outstanding. Additionally £78.9m, inclusive of VAT, was received during 2015/16 from companies in which the Council had a related party interest of which £34.1m remains outstanding. The majority of the value of expenditure is in relation to companies where elected members are acting in their official capacity within the Group.

Other balances at 31 March 2016 are £87.5m of funding guarantees, £31.5m of investments and £48.5m of loans (of which £46.0m is repayable after 31 March 2017).

Central Government
Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (for example, Council Tax bills, Housing Benefits). Grants received from Government departments are set out in the subjective analysis in Note 19 on reporting for resource allocation decisions. Grant receipts outstanding at 31 March 2016 are included in the balances within Note 28.

Members
Members of the Council have direct control over the Council's financial and operational policies. The total of Members' allowances paid in 2015/16 is shown in Note 44.

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

Greater Birmingham and Solihull Business Rates Pooling Arrangement

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

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

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

The table below summarises the financial activity for the year:

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

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

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

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

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

Other Public Bodies - Pooled Budgets

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

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

The Better Care Fund

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

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

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

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

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

The BCF will be used to fund a number of schemes as identified in the agreed joint plan. The management arrangements for the individual projects will be dependent on the services being provided and will include:

- Sole control of the activities by CCGs;
- Sole control of the activities by the Council;
- Joint control of the activities with CCGs or the Council acting as host;
- Lead commissioning by CCGs or the Council on behalf of the other organisations.

Details of the specific projects are set out below.

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

Entities Controlled or Significantly Influenced by the Council

The Council maintains involvement with a number of associated and subsidiary companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

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

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

The Council also has relationships with a number of other companies and third party organisations where the assets and liabilities of the Council's holding is not material to the Group Accounts or where the Council has representation and influence on the board of the organisation but has no claim on the assets and liabilities of the organisation. Details of the organisation and its relationship to the Council are set out in the tables below.

Organisations where the Council has 100% share ownership of the company but the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2015/16.

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

Entities where the Council has some influence

Organisations, including associated subsidiaries, where the Council is a minority shareholder of the company and the level of activity is not material to the Council's Group Accounts are detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2015/16.

Ascension Ventures
Aston Eyetech Limited*
Auctus*
Big Button
Birmingham Wheels Ltd
Birmingham LEP Company (also known as Birmingham Lend Lease Partnership)*
Birmingham Research Park Ltd*
Birmingham Schools SPC Holdings Phase 1A Limited
Birmingham Schools SPC Phase 1A Limited*
Birmingham Schools SPC Holdings Phase 1B Limited
Birmingham Schools SPC Phase 1B Limited*
Bridge Street Management Ltd
Central Technology Belt
Closed Questions (Vote Here Ltd)*
Concierge Events Limited
Concurrent Thinking*
Crowd Technologies
CSR City Limited
Droplet Online
Ex Cathedra
Finds You
Foodient T/A Whisk
Formatzone Limited*
Host My Portfolio/Hobzy
Inceptum Development Limited
Info-Ctrl Limited*
Inspyra Technologies
Learning Labs Limited
Marketing Birmingham*
Matchbox Enterprises Ltd
Midlands Industrial Association Ltd
Mutt Motorcycles Limited*
Natural HR Limited
Obillex Limited*
Owned It
Paradise Circus Limited Partnership
Pure Mobile*
The Review Business (dissolved January 2016)
Skips
Socially Accepted Games T/A Soshi*
Stockfield Community Association
Stockfield Community Association (Subsidiary) Ltd
UK Municipal Bonds Agency Plc
Veolia Environmental Services Birmingham Ltd*
Vision Technologies
Wetakestock Limited

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

Birmingham Asian Resource Centre
Birmingham Citizens Advice Bureau Service Ltd
Birmingham Conservation Trust*
Birmingham Disability Resource Centre*
Birmingham Hippodrome Theatre Trust Ltd*
Birmingham Opera Company*
Birmingham Repertory Theatre*
Birmingham Royal Ballet*
Birmingham Settlement Ltd*
Birmingham Voluntary Service Council*
Broad Street Partnership Ltd
Castle Vale Neighbourhood Partnership Board
Centro*
City of Birmingham Symphony Orchestra*
Dance Xchange*
The Drum/ Newtown Cultural Project*
Erdington Town Centre Partnership*
Jewellery Quarter Development Trust CIC*
Midlands Arts Centre*
Millennium Point Property Ltd*
Millennium Point Trust*
Retail B'ham Limited*
St Basils*
S4E*
St. Paul's Community Development Trust*
Warwickshire County Cricket Club*
West Midlands Arts Trust
WLCA Enterprises Ltd
Witton Lodge Community Association Ltd*

Business Improvement Districts (BID) are business led partnerships, created to deliver additional services to local businesses. A BID covers a defined area in which a levy is charged on all business rate payers, which is then used to develop projects that will benefit business within the area. The Council has member representation on BIDs within the Birmingham area as detailed below. Those organisations highlighted with an asterisk had transactions with the Council in excess of £0.1m in 2015/16.

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

Note 49
The Council Acting as Agent

The Council acts as an intermediary in its role as agent for a number of external bodies. The Council processes transactions through its financial ledger but does not include them in its financial statements as there is no exposure to significant risk or reward associated with the transactions. Details of the major activities where the Council acts as agent are detailed below:

Agency Role	**No**	**Level of Reserve**	**Gross Expenditure**
		£m	£m
Provision of External Payrolls	126	-	234.2
Accountable Body	26	156.5	211.5
Business Rate Pooling	8	0.2	126.1
Arrangements supporting Housing activities	15	3.6	16.8
Reporting of Trust activities	19	22.4	0.4
Other transactions	9	0.2	1.4

External Payrolls

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

Accountable Body Role

Greater Birmingham & Solihull Local Enterprise Partnership

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

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

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

Enterprise Zones

The Council provides accountancy support, collecting Business Rate contributions through its role as agent for the Collection Fund and making payments on its behalf against LEP approved projects as contained in the Enterprise Zone Investment Programme.

Other Roles

England Illegal Money Lending Team

The England Illegal Money Lending Team seizes and holds cash from third parties temporarily as part of its Accountable Body activities on behalf of the Courts.

InReach

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

NEC Developments Ltd.

Following the disposal of the Council's interests in NEC Group Limited, NEC Developments Ltd. has a minimal number of transactions going through it in respect of its loan stock. The company is consolidated into the Council's Group Accounts.

Business Rate Pooling

Details of the Greater Birmingham and Solihull Business Rates Pooling Arrangement are set out in Note 48 to these financial statements.

Housing Activities

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

Trusts

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

Endowments

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

Other

The Council provides accountancy support to:

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

Note 50
Trust Funds

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

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

Analysis of the assets of the main funds:

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

SUPPLEMENTARY FINANCIAL STATEMENTS 2015/16

Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part VI of the Local Government and Housing Act 1989. The Account is required to be self-financing and cannot subsidise or be subsidised by the General Fund. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charges rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

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

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

Movement on the Housing Revenue Account Statement

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

Notes to the Housing Revenue Account

H1. Housing Stock

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

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

The change in the property numbers is analysed below:

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

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

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

The housing stock, land and other property within the HRA are valued in line with the DCLG Guidance on Stock Valuation for Resource Accounting published in January 2011. The basis of the valuation for the housing stock element is in accordance with the Royal Institution of Chartered Surveyors using the Existing Use Value - Social Housing basis, which takes open market value for the underlying dwellings and applies a discount factor to reflect the reduced value as a result of use for social housing for 2015/16 of 34%.

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

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

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

31 March 2015		31 March 2016
£m		£m
398.9	Land	404.7
23.8	Kitchens	19.5
31.6	Bathrooms	25.3
70.6	Windows	56.6
43.8	Heating	38.3
38.9	Roofs	33.2
1,057.9	Remaining Structure	1,089.3
1,665.5	**Total**	**1,666.9**

H2. Value of Dwellings on Vacant Possession

(a) The vacant possession value of dwellings within the Council's HRA, valued in accordance with the Guidance, as at 31 March 2016 is £4,557.6m.

(b) The difference between the above figure and the figure of £1,666.9m in the Balance Sheet notionally represents diminution in the value of assets caused by their being let at social housing rents, according to the DCLG's stock valuation model as explained in Supplementary Note H1.

H3. Revaluations and Impairment Charges

Revaluations and impairment charges reflect an increase or reduction in the value of property due to the economic environment or an event has occurred to the assets. This could include a decline in demand, obsolescence, and commitments to make significant changes to housing. As disclosed in Supplementary Note H1 there was an impairment of £73.3m made to the carrying value of HRA dwellings to reflect the fact that capital expenditure on the assets did not add equivalent value. In addition a revaluation of the HRA dwellings has identified an increase in value of £30.5m, resulting in a net decrease in value of £42.8m. This decrease has been transferred to a revaluation reserve.

H4. Major Repairs Reserve

A transfer is made to the Major Repairs Reserve each year of a value equivalent to the amount charged to the HRA for depreciation of dwellings based on the componentised valuation of the dwellings and individual component residual lives, to make provision for ongoing elemental renewal over the longer term.

The main movements on the Major Repairs Reserve are set out below:

2014/15 £m		2015/16 £m
44.6	Balance on Major Repairs Reserve at 1 April	15.8
39.3	Amount transferred to Major Repairs Reserve during the year	37.8
(68.1)	Charge to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the Council's HRA	(47.8)
15.8	**Balance on Major Repairs Reserve at 31 March**	**5.8**

H5. Capital Expenditure on HRA Assets

Expenditure on HRA assets was funded from the following sources:

2014/15 £m		2015/16 £m
17.7	Usable Capital Receipts (Right to Buy/Land)	22.2
68.1	Major Repairs Reserve	47.8
29.4	Revenue Contributions	20.1
14.0	Prudential Borrowing	4.5
5.9	Other resources	5.9
135.1		**100.5**

The total capital receipts from disposals of land, houses and other property within the HRA during the financial year was £27.2m (land £6.1m, houses £21.1m). The values for 2014/15 were £35.6m (land £12.8m and houses £22.8m). The Government operates a capital receipts pooling framework and of these amounts £6.5m was paid to Central Government (2014/15: £5.7m).

H6. Depreciation Charges

The total charge for depreciation for the land, houses, and other property within the Authority's HRA is £37.8m (2014/15: £39.3m). The depreciation charge is calculated by reference to an assessment of the remaining useful life of the key components of each individual dwelling valued on a depreciated replacement cost basis.

H7. Contribution from Pension Reserve

The Comprehensive Income and Expenditure Statement includes pension costs calculated in accordance with International Accounting Standard (IAS) 19 as described in detail in Note 11 to the Financial Statements. To ensure that these costs do not affect the level of HRA balances and Council House rents, an appropriation is made from the Pensions Reserve so that the movement in balances only reflects the actual employer's pension contribution.

H8. Rent Arrears

Rent arrears from current tenants at 31 March 2016 totalled £12.1m (2014/15: £11.3m). Other arrears including Housing Benefit overpayments, leaseholder major works and miscellaneous services totalled £22.2m at 31 March 2016 (2014/15: £21.8m).

A provision for bad debts has been made to meet possible future write offs of rent and other services/leaseholder/benefit overpayments. The provision was £28.7m at 31 March 2016 (2014/15: £25.2m) and has been calculated based on value/aged analysis in accordance with Government guidelines.

31 March 2015		31 March 2016
£m		£m
11.3	Current tenants	12.1
11.3	Housing benefit overpayment	13.2
10.5	Other debt (services/leaseholders)	9.0
33.1	**Total arrears**	**34.3**
25.2	Provision for bad debts	28.7

H9. Supervision and Management

The Council has recognised that an element of the settlements being agreed in respect of claims under the Equal Pay Act 1970 relate to employees whose employment costs fell on the HRA. Therefore the HRA has been charged its share of the Council's overall Equal Pay liability based on the current estimate of claims. The charge to the HRA relates solely to claims relating to activities correctly charged to the HRA, and amounts to a charge of £0.5m in 2015/16 (2014/15: £3.4m credit). These amounts also include £14.7m that has been set aside in a provision for future years' payments. Statutory arrangements (Capital Regulation 30A) allow the change in provision to be reversed back to an Equal Pay Back Pay Account. The remaining balance on the Equal Pay Back Pay Account will be debited back to the HRA through the Movement in Reserves Statement in future financial years as payments are made.

Collection Fund Income and Expenditure Account

The Collection Fund Income and Expenditure Account reflects the statutory requirement for the Council to maintain a separate Collection Fund for Council Tax and National Non Domestic Rates (NNDR). The statement shows transactions in relation to the collection of income from tax payers and the distribution to major preceptors and the Council itself, as principal. The resulting balance is apportioned between the Council and major preceptors. The table has been restated for 2014/15 to more accurately reflect the sums to be recorded against the Collection Fund and against the Council. The restatement has not changed either the (Surplus)/Deficit in year or the (Surplus)/Deficit carried forward.

2014/15 (Restated)				**2015/16**		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**
			<u>Income</u>			
			Council Tax Receivable:			
(312.9)		(312.9)	Collectable Council Tax	(322.9)		(322.9)
(312.9)		**(312.9)**		**(322.9)**		**(322.9)**
			Business Rates Receivable:			
	(439.6)	(439.6)	Collectable Business Rates		(437.2)	(437.2)
	4.8	4.8	Transitional Payment Payable to Government		1.1	1.1
	(434.8)	**(434.8)**			**(436.1)**	**(436.1)**
	(2.4)	**(2.4)**	**Enterprise Zone Deficit Repayable to the Collection Fund**		**(3.8)**	**(3.8)**
			Apportionment of Prior Year Deficit:			
(1.1)	(3.2)	(4.3)	Birmingham City Council	-	(2.1)	(2.1)
	(3.1)	(3.1)	Central Government		(2.3)	(2.3)
	(0.1)	(0.1)	West Midlands Fire & Rescue Authority	-	-	-
(0.1)		(0.1)	West Midlands PCC	-		-
(1.2)	**(6.4)**	**(7.6)**	**Total Apportionment of Prior Year Deficit**		**(4.4)**	**(4.4)**
(314.1)	**(443.6)**	**(757.7)**	**TOTAL INCOME**	**(322.9)**	**(444.3)**	**(767.2)**

2014/15 (Restated)				**2015/16**		
Council Tax	**NNDR**	**Total**		**Council Tax**	**NNDR**	**Total**
£m	**£m**	**£m**	<u>Expenditure</u>	**£m**	**£m**	**£m**
			Precepts Demands & Shares:			
261.7	199.6	461.3	Birmingham City Council	272.1	203.9	476.0
0.1		0.1	New Frankley Parish Council	0.1		0.1
	199.5	199.5	Central Government		201.9	201.9
12.4	4.0	16.4	West Midlands Fire & Rescue Authority	12.9	4.0	16.9
24.1		24.1	West Midlands PCC	25.0		25.0
			Charges:			
7.9	9.3	17.2	Increase/(Decrease) in Provision for Bad and Doubtful Debts	9.4	12.7	22.1
	29.6	29.6	Increase/(Decrease) in Provision for Appeals		40.0	40.0
	1.9	1.9	Cost of Collection		1.9	1.9
306.2	**443.9**	**750.1**	**TOTAL EXPENDITURE**	**319.5**	**464.4**	**783.9**
(7.9)	**0.3**	**(7.6)**	**(Surplus)/Deficit for the year**	**(3.4)**	**20.1**	**16.7**
3.2	**31.4**	**34.6**	**(Surplus)/Deficit brought forward**	**(4.7)**	**31.7**	**27.0**
(4.7)	**31.7**	**27.0**	**(Surplus)/Deficit carried forward**	**(8.1)**	**51.8**	**43.7**

Notes to the Collection Fund
C1. Contributions from Council Taxpayers

The Council's tax base at January 2015 (the number of chargeable dwellings in each valuation band net of discounts) converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	139	5/9	77
A	78,743	6/9	52,495
B	83,521	7/9	64,961
C	56,818	8/9	50,505
D	29,973	1	29,973
E	17,500	11/9	21,389
F	7,819	13/9	11,294
G	5,332	15/9	8,887
H	749	18/9	1,498
Total	**280,594**		**241,079**
Less adjustment for collection rate			(6,990)
			234,089

The level of Council Tax is calculated at the beginning of the year and is calculated so as to ensure that the Council has enough money to pay for the services it provides. The amount of tax paid by local residents is based on how much it is estimated that the property they live in would have been worth in 1991. There are nine property valuation bands, AR to H.

The total required by the Collection Fund is divided by the Council Tax base. The Tax base represents the number of properties in the City, expressed as equivalent Band D properties. The level of Council Tax paid for a Band D property is the total income required divided by the Council Tax base, subject to any discounts to which a Council Tax payer may be entitled. The amount is adjusted for discounts and exemptions that particular residents in the City are entitled to.

The figures for the New Frankley in Birmingham Parish are:

Band	Number of Properties	Ratio	Band D equivalent dwellings
AR	2	5/9	1
A	680	6/9	453
B	969	7/9	754
C	84	8/9	75
D	53	1	53
E	1	11/9	1
F	-	13/9	-
G	-	15/9	-
H	1	18/9	2
Total			**1,339**
Less adjustment for collection rate			(39)
			1,300

C2. Business Ratepayers

The Council collects National Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate which is set by the Government (48.0p for 2015/16: 47.1p for 2014/15). The total non-domestic rateable value at 31 March 2016 was £1,068.10m (31 March 2015: £1,061.89m). Under the National Non-Domestic Rates Retention Scheme the amount raised each year, less certain reliefs and adjustments, is distributed on the following basis:

- 50% - Central Government;
- 49% - Birmingham City Council;
- 1% - The West Midlands Fire and Rescue Authority.

C3. Precept Payments

The preceptors on the Council Tax element of the Collection Fund are the City Council, New Frankley in Birmingham Parish Council, the West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner.

The preceptors on the National Non-Domestic Rates element of the Collection Fund are the City Council, Central Government and the West Midlands Fire and Rescue Authority.

Statement of GROUP Accounts 2015/16

Narrative Report

1 Introduction

1.1 This document presents the statutory financial statements for Birmingham City Council Group for the period from 1 April 2015 to 31 March 2016. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

1.2 In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies and trusts means that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture of the Council's activities.

1.3 These Group Accounts have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies of the subsidiaries, associates and jointly controlled entities have been aligned with the policies of the Council, for the purposes of Group Accounts, where materially different. Such adjustments as are necessary to align the Group Accounting policies are made as consolidation adjustments.

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

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

1.6 The pages which follow contain the Group's Financial Statements for the year ended 31 March 2016, with comparative figures for the previous financial year.

2 Consolidation of Subsidiary and Associate Companies

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

2.2 The Council disposed of the National Exhibition Centre Limited Group (NEC Ltd) on 1 May 2015 and the group accounts have included the activity of that company for the period to the date of disposal.

2.3 The Council has incorporated two companies into its Group consolidation for the first time as the activity in the companies is considered material to the whole, namely:

- PETPS (Birmingham) Limited, which has taken on the employer responsibility for the pension liabilities of the NEC Ltd on its disposal, has been included as a subsidiary company, and
- Paradise Circus General Partner Limited, a partnership between the Council and BriTel Funds Trustees Limited for the development of the Paradise Circus area of the City, has been included as an associate company.

2.4 The Group Accounts consolidate the Council's accounts with those of:

Subsidiaries

- Acivico Limited
- Birmingham Museums Trust
- Innovation Birmingham Limited
- National Exhibition Centre Limited (including NEC Finance Plc) for the period to 1 May 2015
- National Exhibition Centre (Developments) Plc
- Performances Birmingham Limited
- PETPS (Birmingham) Limited

Associates

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

2.5 Further detail regarding the Council's relationship with the above companies is given in notes G24 and G25.

2.6 The Council also maintains involvement with a number of other related entities where the assets and liabilities of the companies are not included in these Group Accounts. Where these entities fall within the Group boundary as subsidiaries, associates or jointly controlled entities they have been excluded from consolidation on the grounds of materiality. Otherwise they do not fall within the Group boundary due to the Council's limited control or influence. Further details are set out in Note 48 to the Council's accounts.

3 Changes in Group Structure

3.1 On 16 January 2015, the Council announced that it had entered into a binding agreement to sell The National Exhibition Centre Limited (NEC Ltd) to Lloyds Development Capital, the private equity arm of Lloyds Banking Group. The sale was completed on 1 May 2015.

3.2 The sale involved a number of transactions, the key ones being:

- The sale of the Council's equity in NEC Ltd;
- The transfer of the on-going funding of the NEC defined benefit pension schemes to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which is consolidated in these Group financial statements;
- The termination of existing leases for assets used by NEC Ltd and entering into new lease arrangements with the purchasers.

3.3 The assets held in the Group's financial statements in 2014/15 that were related to the disposal of NEC Ltd were categorised as Assets Held for Sale. Additional information is included in the relevant Group notes and in the Council's financial statements for clarity.

4 Introduction of new Accounting Standards

4.1 The Financial Reporting Council introduced FRS102*, The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as a replacement for UK Generally Accepted Accounting Practice (UK GAAP), for the preparation of accounts beginning on or after 1 January 2015. The new accounting standards, whilst changing the format and disclosure requirements in the accounts, may also impact on the amounts being reported as the measurement basis may have changed.

4.2 A number of companies that are consolidated into the Council's Group Accounts have now adopted FRS102 for the first time. The impact on the reporting amounts in the companies' accounts has been minimal. In aligning accounting policies for consolidation, the Council has historically adjusted company accounts to an IFRS basis.

5 The Main Financial Statements

5.1 The following statements consolidate the accounts of the Council with those of its subsidiaries and associates. Transactions between the Council and its Group entities are eliminated on consolidation.

5.2 Group Movement in Reserves Statement (GMiRS) – provides a reconciliation of the movement in year on the different reserves held and how the balance of resources generated or used in the year reconciles to the Council's statutory requirements for raising Council Tax.

5.3 The Group Comprehensive Income and Expenditure Statement (GCIES) – provides the accounting cost in year recognised by the Group, in a specified format, in accordance with generally accepted accounting practices. Details of the net surplus/(deficit) on the provision of services is detailed below.

	2014/15		2015/16	
	Entity £m	Group £m	Entity £m	Group £m
Surplus/(Deficit) on Provision of Services	(71.0)	(41.0)	(134.4)	84.8

5.4 The 2015/16 GCIES shows a gain of £125.8m in the net surplus on provision of services compared to 2014/15. The major change is the gain arising from the sale of the NEC Group Limited and the reductions in service expenditure which have been offset by a reduction in income, mainly from government grants, and the exceptional transactions detailed in the Council entity statements.

5.5 Group Balance Sheet – shows the value of assets and liabilities recognised by the Group at 31 March 2016 and the level of reserves, split into usable and unusable.

	2014/15		2015/16	
	Entity	Group	Entity	Group
	£m	£m	£m	£m
Long Term Assets	5,156.3	5,200.2	5,247.9	5,252.2
Current Assets	685.4	709.8	418.6	428.2
Current Liabilities	(1,301.1)	(1,368.2)	(1,071.7)	(1,077.7)
Long Term Liabilities	(5,768.6)	(5,881.5)	(5,437.6)	(5,431.5)
Net Assets/(Liabilities)	**(1,228.0)**	**(1,339.7)**	**(842.8)**	**(828.8)**
Represented by:				
Usable Reserves	626.0	519.9	895.7	897.4
Unusable Reserves	(1,854.0)	(1,859.6)	(1,738.5)	(1,726.2)
Total Reserves	**(1,228.0)**	**(1,339.7)**	**(842.8)**	**(828.8)**

5.6 The net liability has reduced by £510.9m to £828.8m. This is mainly due to reductions in the net liability on defined benefit pension schemes and the reduction in provision by the Council for Equal Pay claims.

5.7 Group Cash Flow Statement – shows how the Group generates and uses cash during the year and the impact this has on the balances of cash and cash equivalents.

Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts	Major Repairs Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Council Reserves**	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures	**Total Group Reserves**
	£m	£m	£m	£m	£m	£m	**£m**	£m	**£m**	£m	**£m**
Balance at 31 March 2014	**85.8**	**348.3**	**4.4**	**27.5**	**44.6**	**142.4**	653.0	**(1,379.0)**	**(726.1)**	(110.3)	**(836.4)**
Movement in Reserves during 2014/15											
Surplus/(Deficit) on the provision of services	(68.6)		65.4				**(3.2)**		**(3.2)**	(31.5)	**(34.7)**
Other Comprehensive Income and Expenditure							**-**	(430.9)	**(430.9)**	(37.7)	**(468.6)**
Total Comprehensive Income and Expenditure	**(68.6)**	**-**	**65.4**	**-**	**-**	**-**	**(3.2)**	**(430.9)**	**(434.1)**	**(69.2)**	**(503.3)**
Adjustments between Group Accounts and Council Accounts (Note G22)	(67.8)						(67.8)		(67.8)	67.8	-
Changes in Group Reserves accounted for through equity (G7)											
Net Increase/(Decrease) before Transfers	**(136.4)**	**-**	**65.4**	**-**	**-**	**-**	**(71.0)**	**(430.9)**	**(501.9)**	**(1.4)**	**(503.3)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	187.6	-	(65.3)	(11.2)	(28.8)	(38.3)	**44.0**	(44.0)	**-**	-	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**51.2**	**-**	**0.1**	**(11.2)**	**(28.8)**	**(38.3)**	**(27.0)**	**(474.9)**	**(501.9)**	**(1.4)**	**(503.3)**
Transfers to/(from) Earmarked Reserves (Note 7)	0.8	(0.8)					**-**		**-**		**-**
Increase/Decrease in 2014/15	52.0	(0.8)	0.1	(11.2)	(28.8)	(38.3)	**(27.0)**	(474.9)	**(501.9)**	**(1.4)**	**(503.3)**
Balance at 31 March 2015	**137.8**	**347.5**	**4.5**	**16.3**	**15.8**	**104.1**	**626.0**	**(1,854.0)**	**(1,228.0)**	**(111.7)**	**(1,339.7)**
Movement in Reserves during 2015/16											
Surplus/(Deficit) on the provision of services	(105.1)		59.0				**(46.1)**		**(46.1)**	137.3	**91.2**
Other Comprehensive Income and Expenditure							**-**	519.6	**519.6**	(56.4)	**463.2**
Total Comprehensive Income and Expenditure	**(105.1)**	**-**	**59.0**	**-**	**-**	**-**	**(46.1)**	**519.6**	**473.5**	80.9	**554.4**
Adjustments between Group Accounts and Council Accounts (Note G22)	(88.3)						(88.3)		(88.3)	88.3	-
Changes in Group Reserves accounted for through equity (G7)										(43.5)	(43.5)
Net Increase/(Decrease) before Transfers	**(193.4)**	**-**	**59.0**	**-**	**-**	**-**	**(134.4)**	**519.6**	**385.2**	**125.7**	**510.9**
Adjustments between accounting basis and funding basis under regulations (Note 6)	208.3	-	(58.9)	295.8	(10.0)	(31.1)	**404.1**	(404.1)	**-**		**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**14.9**	**-**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**	125.7	**510.9**
Transfers to/(from) Earmarked Reserves (Note 7)	(41.8)	41.8					**-**		**-**		**-**
Increase/Decrease in 2015/16	**(26.9)**	**41.8**	**0.1**	**295.8**	**(10.0)**	**(31.1)**	**269.7**	**115.5**	**385.2**	125.7	**510.9**
Balance at 31 March 2016	**110.9**	**389.3**	**4.6**	**312.1**	**5.8**	**73.0**	**895.7**	**(1,738.5)**	**(842.8)**	14.0	**(828.8)**

Group Comprehensive Income and Expenditure Statement

This statement shows the income and expenditure recognised by the Group during the reporting period. Discontinued operations relate to the disposal of NEC Ltd on 1 May 2015.

2014/15 Gross Expenditure	2014/15 Gross Income	2014/15 Net Expenditure		Note	2015/16 Gross Expenditure	2015/16 Gross Income	2015/16 Net Expenditure
£m	£m	£m	**Continuing Operations**		£m	£m	£m
20.1	(13.5)	6.6	Central services to the public		21.0	(12.2)	8.8
185.3	(49.8)	135.5	Cultural and Related Services		128.0	(52.6)	75.4
105.1	(44.2)	60.9	Environmental and Regulatory Services		105.1	(27.2)	77.9
68.3	(62.1)	6.2	Planning Services		47.4	(56.3)	(8.9)
1,178.7	(900.1)	278.6	Children's and Education Services		1,107.5	(862.0)	245.5
135.2	(33.1)	102.1	Highways and Transport Services		237.9	(36.9)	201.0
182.8	(289.1)	(106.3)	Housing Revenue Account (Local Authority Housing)		186.7	(293.3)	(106.6)
641.2	(571.1)	70.1	Housing General Fund		641.5	(586.9)	54.6
374.2	(96.7)	277.5	Adult Social Care		369.7	(101.5)	268.2
73.4	(81.9)	(8.5)	Public Health		85.5	(76.6)	8.9
(2.1)	(2.2)	(4.3)	Corporate and Democratic Core		1.3	(2.8)	(1.5)
46.4	-	46.4	Non Distributed Costs		24.6	-	24.6
3,008.6	**(2,143.8)**	**864.8**	**Total Continuing Operations excluding acquired services**		**2,956.2**	**(2,108.3)**	**847.9**
			Acquired Services				
-	-	-	Public Health – 0 to 5 years		8.3	(11.4)	(3.1)
3,008.6	**(2,143.8)**	**864.8**	**Total Cost Of Services**		**2,964.5**	**(2,119.7)**	**844.8**
137.5	-	137.5	Other Operating Expenditure	G5	45.0	-	45.0
330.6	(87.2)	243.4	Financing and Investment Income and Expenditure	G6	323.5	(98.1)	225.4
120.6	(139.3)	(18.7)	Discontinued Operations	G4,G5	12.0	(99.9)	(87.9)
5.4	(1,191.4)	(1,186.0)	Taxation and Non-Specific Grant Income		16.6	(1,128.7)	(1,112.1)
		41.0	**(Surplus) / Deficit on Provision of Services**				**(84.8)**
		(8.4)	Share of the (surplus)/deficit on the Provision of Services of Associates				(9.8)
		-	Tax Expense of Subsidiaries				0.1
		2.1	Tax Expense of Associates				3.3
		34.7	**Group (Surplus)/Deficit**				**(91.2)**
			Items that will not be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(116.1)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	G8,G9			(294.9)
		124.2	Impairment losses on non-current assets charged to the revaluation reserve	G8,G9			73.3
		441.9	Remeasurement of the net defined benefit liability	G21			(249.4)
		19.0	Share of Other Comprehensive Income and Expenditure of Associates and Joint Ventures				7.2
		469.0					**(463.8)**
			Items that may be reclassified to the (Surplus)/Deficit on the Provision of Services				
		(0.4)	(Surplus) / deficit on revaluation of available for sale financial assets				0.7
		(0.4)					**0.7**
			Reclassification Adjustment for prior year unrealised gains/(losses)				
		-	Gain/(loss) adjustment on disposal of available for sale financial assets				**(0.1)**
		-					**(0.1)**
		468.6	**Other Comprehensive (Income) / Expenditure**				**(463.2)**
		503.3	**Total Comprehensive (Income) / Expenditure**				**(554.4)**

Group Balance Sheet

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

31 March 2015 £m		Note	31 March 2016 £m
4,801.7	Property, Plant and Equipment	G8	4,874.6
246.1	Heritage Assets		249.8
10.8	Investment Property		10.0
28.4	Intangible Assets		25.6
6.4	Long Term Investments		5.8
67.9	Long Term Debtors		61.5
38.9	Investments in Associates and Joint Ventures	G24,G25	24.9
5,200.2	**Total Long Term Assets**		**5,252.2**
75.2	Short Term Investments	G10	58.8
288.3	Assets Held for Sale	G9	4.2
1.1	Inventories		1.5
301.7	Short Term Debtors	G11	281.2
43.5	Cash and Cash Equivalents	G10	82.5
709.8	**Total Current Assets**		**428.2**
(22.5)	Cash and Cash Equivalents	G10	(34.5)
(603.8)	Short Term Borrowing		(430.5)
(338.9)	Short Term Creditors	G12	(329.4)
(70.6)	Liabilities in Disposal Groups		-
(332.4)	Provisions		(283.3)
(1,368.2)	**Total Current Liabilities**		**(1,077.7)**
(86.8)	Long Term Creditors	G10	(73.1)
(262.5)	Provisions		(60.8)
(2,668.0)	Long Term Borrowing		(2,684.4)
(527.9)	Other Long Term Liabilities		(507.8)
(2,336.3)	Net liability on defined benefit pension scheme	G21	(2,105.4)
(5,881.5)	**Total Long Term Liabilities**		**(5,431.5)**
(1,339.7)	**Net Assets**		**(828.8)**
519.9	Usable Reserves	G13	897.4
(1,859.6)	Unusable Reserves	G14	(1,726.2)
(1,339.7)	**Total Reserves**		**(828.8)**

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The Group cash flow figures for 2014/15 have been restated to recognise those activities related to discontinued operations in respect of the sale of NEC Group Limited.

2014/15 (Restated) £m		Note	2015/16 £m
(34.7)	Net Surplus/(Deficit) on the provision of services		91.2
286.6	Adjustments to net Surplus/Deficit on the provision of services for non-cash movements		443.0
(122.9)	Adjustments for items included in the net Surplus/(Deficit) on the provision of services that are investing and financing activities		(693.0)
25.3	Net cash flow from operating activities related to discontinued operations		0.2
154.3	**Net cash flows from Operating Activities**		**(158.6)**
(251.1)	Investing Activities	G16	270.2
92.1	Financing Activities	G17	(84.6)
(4.7)	**Net increase/(decrease) in cash and cash equivalents**		**27.0**
25.7	Cash and cash equivalents at the beginning of the reporting period		21.0
21.0	**Cash and cash equivalents at the end of the reporting period**		**48.0**

NOTES TO THE GROUP ACCOUNTS

Note G1
Accounting Policies

The Group Financial Statements summarise the Council's and Group's transactions for the 2015/16 financial year. The Group Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, supported by International Financial Reporting Standards (IFRS).

Members within the Group have been classified as either subsidiaries or associates with details included in respect of the classification within Notes G24 and G25. Subsidiaries have been consolidated into the Group Financial Statements on a line by line basis, with associates consolidated under the equity method.

Investments in associates are carried at cost rather than fair value.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are not material differences, the Notes to the Council entity accounts provide the required disclosures.

Accounting policies of the individual members of the Group have been aligned to the Council's accounting policies. The implementation of FRS102 for the first time means that the level of adjustments required is minimised.

The accounting policies applied to the Group Financial Statements are consistent with those set out in Note 1 to the Council entity financial statements, with additional policies specific to the Group set out below.

Disposal of a Subsidiary Company

When a subsidiary company is disposed of the assets and liabilities of the subsidiary are derecognised at their carrying value at the time of disposal and the value of any consideration received is recognised. The transactions plus any resulting differences are identified in the Profit/Loss on disposal of a subsidiary and forms part of the Surplus/Deficit on Provision of Services within the Group Comprehensive Income and Expenditure Statement.

Derivative Financial Instruments and Hedging Activities

The Group used foreign currency forward contracts to mitigate the adverse currency exchange risk on trade receivables. These contracts were treated as a trading instrument with fair value movements on the derivative being recognised immediately through the income statement. At 31 March 2015 NEC Ltd had entered into forward contracts totalling €3.65m all of which were due to mature within 24 months. Following the sale of the NEC Group Limited on 1 May 2015, the Group had no derivative financial instruments or hedging instruments.

Defined Contribution Pension Schemes

The NEC Limited Group funded two defined benefit schemes, which ceased to provide future service accrual with effect from 30 June 2010 and operated two contributory benefit schemes comprising a Stakeholder Scheme to which only members contribute, and a Group Personal Pension Plan where the company matched member contributions to an agreed maximum. The schemes transferred to PETPS (Birmingham) Limited on 1 May 2015 on the Council's disposal of NEC Ltd. Further information may be found in Note G21.

Defined Benefit Pension Scheme

Acivico Limited and Birmingham Museums Trust participate in the Local Government Pension Scheme (LGPS). The scheme is a funded defined benefit scheme based upon career average salary for benefits accrued since 1 April 2014 and on final pensionable salary for benefits accrued to 31 March 2014. Further information may be found within the Council's entity accounting policies and Note G21.

Note G2
Critical Judgements in Applying Accounting Policies

National Exhibition Centre

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

The Council considered the criteria within IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, and determined that the tests for recognition of the assets and liabilities within the Balance Sheet as a disposal group in Assets Held for Sale were met at the 2014/15 Balance Sheet Date. The Council, therefore, recognised those NEC assets and liabilities subject to the disposal as Assets Held for Sale at the year end, which required a transfer from their previous Balance Sheet categories.

The disposal of the assets related to the NEC Group within the Council entity accounts and the subsidiaries consolidated within the Group accounts have been treated as one transaction on consolidation.

Other critical judgements relating to the Council in applying Accounting Policies are provided in Note 3 to the Council entity accounts.

There are no additional material judgements to report in respect of the remaining Group Entities.

Note G3
Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Assumptions made about future and other major sources of estimation and uncertainty are provided in Note 4 to the Council entity accounts.

There are no additional material assumptions to report in respect of the remaining Group Entities.

Note G4
Discontinued Operations

In January 2015, the Council announced that it had entered into a binding agreement to dispose of the NEC Group to Lloyds Development Capital, the private equity arm of Lloyds Banking Group.

The sale was completed on 1 May 2015 and the City Council received a cash payment of £250m to cover:

- The sale of its equity in The National Exhibition Centre Limited (NECL);
- A premium for the sale of leasehold interests as detailed in note 42 to the Council entity accounts;
- Net income from operations of the NEC Group until completion of the sale.

The Council may also receive, depending on the performance and any future sale of the NEC Group, additional consideration comprising deferred purchase consideration of £15m in the form of a loan note with a compounding yield of 8% per annum, up to £12m in respect of accumulated tax losses which will be remitted to the Council by the NEC Group as these losses are utilised and an entitlement to proceeds equivalent to 3% of the equity value of any future sale of the NEC Group. Given the uncertainty regarding any future payments, the potential receipts have been treated as a contingent asset within the Council entity accounts.

The gain on disposal of the discontinued operations was determined as follows:

	2015/16 £m
Consideration Received	**224.8**
Net cost of disposal	(5.1)
Net disposal proceeds	**219.7**
Assets/Liabilities disposed of:	
Tangible Assets	285.1
Debtors	38.9
Short Term Creditors	(104.0)
Long Term Liabilities	(86.7)
Total Net Assets/Liabilities	**133.3**
Gain on disposal of subsidiary	**86.4**

Comprehensive Income and Expenditure Statement

The Council disposed of the NEC Group Limited on 1 May 2015 and the information for 2015/16 covers that period only.

	2014/15 £m	2015/16 £m
Turnover	139.3	13.5
Cost of Sales	(24.0)	(2.8)
Gross Profit	**115.3**	**10.7**
Administrative Expenses	(85.5)	(9.2)
Operating Profit	**29.8**	**1.5**
Interest Payable	(11.1)	-
Profit/Loss before Taxation	**18.7**	**1.5**
Gain on Disposal	-	86.4
Net Discontinued Operations	**18.7**	**87.9**

Cash Flow

Details of the discontinued operations cashflow are included in the Cashflow Statement and in notes G16, Cash Flow Statement – Investing Activities and G17, Cash Flow Statement – Financing Activities.

Note G5
Material Items of Income and Expenditure

The Council completed the sale of the NEC Group Limited to Lloyds Development Capital on 1 May 2015. The transactions involved in the sale of the NEC Group Limited are identified and accounted for in the Council entity accounts.

The Council entity accounts, Comprehensive Income and Expenditure Statement (CIES), include a loss on disposal of £59.2m relating to the disposal of the NEC within the total other operating expenditure of £104.2m. On consolidation for the Group accounts, the disposal of the NEC has been accounted as discontinued operations and therefore, other operating expenditure within the Group CIES has been adjusted to reflect the movement. The net gain on disposal for the NEC Group is £86.4m and is detailed in note G4, Discontinued Operations. The gain on disposal does not impact on the Council's level of usable reserves.

Note G6
Financing and Investment Income and Expenditure

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

2014/15				2015/16		
Gross Expenditure £m	Income £m	Net £m		Gross Expenditure £m	Income £m	Net £m
201.5	-	201.5	Interest Payable and similar charges	190.5	-	190.5
75.9	(0.6)	75.3	Net interest on the net defined benefit liability	73.2	(2.0)	71.2
-	(16.4)	(16.4)	Interest Receivable and similar income	-	(14.2)	(14.2)
64.3	(64.2)	0.1	(Surplus)/Deficit on trading operations not consolidated within Service Expenditure Analysis in Comprehensive Income and Expenditure Statement	59.8	(61.2)	(1.4)
-	(6.1)	(6.1)	Other investment income and expenditure	-	(20.7)	(20.7)
341.7	**(87.3)**	**254.4**	**Sub Total**	**323.5**	**(98.1)**	**225.4**
11.1	-	11.1	Discontinued Operations included in detail above	-	-	-
330.6	**(87.3)**	**243.3**	**Total**	**323.5**	**(98.1)**	**225.4**

Note G7
Changes in Group Reserves accounted for through Equity

The National Exhibition Centre (Developments) Plc was set up to provide additional exhibition space, financed by a loan stock issue of £73m, at the NEC site. Since the disposal of NEC Ltd, the Council has given a guarantee to NEC (Developments) Plc, as part of the disposal arrangements of assets held by the company, for the loan stock and made payments to the company to enable it to meet its liabilities as they fall due.

NEC (Developments) Plc has accounted for activities with the Council, £43.5m, as adjustments to capital contributions, thereby, reducing member equity in the company.

Note G8
Property, Plant and Equipment

Details of the Group Property, Plant and Equipment are set out below. The PFI/Service Concession assets included in Property, Plant and Equipment have been restated for 2014/15 to reflect the highways activity incurred by the Council which is subsumed in the PFI contract.

Movements on Balances: 2015/16

	Council dwellings £m	Other land and buildings £m	Vehicles, plant, furniture & equipment £m	Infrastructure assets £m	Community assets £m	Surplus Assets £m	Assets under construction £m	Total Property, Plant and Equipment £m	PFI / Service Concession assets Included in Property, Plant and Equipment £m
Cost or Valuation									
At 1 April 2015	**1,810.8**	**2,353.4**	**219.1**	**476.2**	**90.7**	**-**	**259.8**	**5,210.0**	**641.2**
Additions	100.5	83.9	25.1	47.0	0.9	-	93.4	**350.8**	28.0
Assets reclassified between categories	-	214.3	0.2	17.9	1.1	0.4	(233.4)	**0.5**	-
Assets reclassified (to)/from Held for Sale	-	(3.5)	-	-	-	-	-	**(3.5)**	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	192.1	-	-	-	5.6	-	**197.7**	16.0
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(114.8)	(69.1)	-	-	-	1.3	(1.5)	**(184.1)**	(5.2)
Derecognition - Disposals	(17.1)	(357.6)	(27.5)	(0.2)	-	-	-	**(402.4)**	(28.2)
Derecognition - other	(1.4)	-						**(1.4)**	
At 31 March 2016	**1,778.0**	**2,413.5**	**216.9**	**540.9**	**92.7**	**7.3**	**118.3**	**5,167.6**	**651.8**
Accumulated Depreciation and Impairment									
At 1 April 2015	**(145.3)**	**(128.2)**	**(88.3)**	**(46.5)**	**-**	**-**	**-**	**(408.3)**	**(47.7)**
Depreciation charge	(37.9)	(50.3)	(22.3)	(20.2)	-	-	-	**(130.7)**	(25.4)
Depreciation written out to the Revaluation Reserve	39.3	85.7	-	-	-	-	-	**125.0**	4.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	119.3	-	-	-	-	-	**119.3**	4.2
Impairment (losses)/reversals recognised in the Revaluation Reserve	(82.1)	15.6	-	-	-	-	-	**(66.5)**	-
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	114.8	(89.0)	-	-	-	-	-	**25.8**	-
Derecognition - Disposals	-	14.4	27.4	0.4	-	-	-	**42.2**	1.4
Derecognition - of components	-	0.2	-	-	-	-	-	**0.2**	-
At 31 March 2016	**(111.2)**	**(32.3)**	**(83.2)**	**(66.3)**	**-**	**-**		**(293.0)**	**(62.8)**
Net Book Value									
At 31 March 2016	**1,666.8**	**2,381.2**	**133.7**	**474.6**	**92.7**	**7.3**	**118.3**	**4,874.6**	**589.0**
At 1 April 2015	**1,665.5**	**2,225.2**	**130.8**	**429.7**	**90.7**	**-**	**259.8**	**4,801.7**	**593.5**

Movements on Balances: 2014/15 (Restated)

	Council dwellings	Other land and buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus Assets	Assets under construction	Total Property, Plant and Equipment	PFI / Service Concession assets Included in Property, Plant and Equipment
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation									
At 1 April 2014	**1,769.8**	**2,689.4**	**280.2**	**540.0**	**89.5**	**-**	**189.7**	**5,558.6**	**581.7**
Additions	135.1	74.9	23.8	56.8	1.5	-	98.8	**390.9**	71.2
Assets reclassified between categories	-	13.2	0.3	10.7	0.2	-	(24.3)	**0.1**	-
Assets reclassified (to)/from Held for Sale	-	(220.1)	-	-	-	-	-	**(220.1)**	-
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	-	55.6	(6.8)	-	-	-	-	**48.8**	(7.5)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(73.3)	(120.4)	(10.1)	-	-	-	(4.4)	**(208.2)**	(4.0)
Derecognition - Disposals	(17.7)	(128.4)	(68.3)	-	-	-	-	**(214.4)**	(0.2)
Derecognition - other	(3.1)			(131.3)	(0.5)			**(134.9)**	-
Other movements in cost or valuation	-	(10.8)	-	-	-	-	-	**(10.8)**	-
At 31 March 2015	**1,810.8**	**2,353.4**	**219.1**	**476.2**	**90.7**	**-**	**259.8**	**5,210.0**	**641.2**
Accumulated Depreciation and Impairment									
At 1 April 2014	**(109.7)**	**(157.7)**	**(145.4)**	**(147.0)**	**-**	**-**	**-**	**(559.8)**	**(45.5)**
Depreciation charge	(39.3)	(50.3)	(25.5)	(30.9)	-	-	-	**(146.0)**	(22.0)
Depreciation written out to the Revaluation Reserve	38.9	18.6	-	-	-	-	-	**57.5**	2.7
Depreciation written out to the Surplus/Deficit on the Provision of Services	-	-	5.3	-	-	-	-	**5.3**	-
Impairment (losses)/reversals recognised in the Revaluation Reserve	(108.6)	(18.2)	10.6	-	-	-	-	**(116.2)**	15.2
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	73.4	61.9	-	-	-	-	-	**135.3**	1.9
Derecognition - Disposals	-	16.9	66.7	131.4	-	-	-	**215.0**	-
Derecognition - of components	-	0.6	-	-	-	-	-	**0.6**	-
Other movements in depreciation and impairment	-	-	-	-	-	-	-	**-**	-
At 31 March 2015	**(145.3)**	**(128.2)**	**(88.3)**	**(46.5)**	**-**	**-**	**-**	**(408.3)**	**(47.7)**
Net Book Value									
At 31 March 2015	**1,665.5**	**2,225.2**	**130.8**	**429.7**	**90.7**	**-**	**259.8**	**4,801.7**	**593.5**
At 1 April 2014	**1,660.1**	**2,531.7**	**134.8**	**393.0**	**89.5**	**-**	**189.7**	**4,998.8**	**536.2**

Further details on the Council's policies for fixed asset revaluations and depreciation are provided in Note 20 to the Council entity accounts. Buildings assets held by Innovation Birmingham Group Limited have been valued as at 31 March 2016.

Note G9
Assets Held for Sale

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

	2014/15	2015/16
	£m	£m
Balance outstanding at start of year	**11.8**	**288.3**
Assets newly classified as held for sale:		
- Property, plant and equipment	224.7	3.3
- Intangible assets	2.7	-
- Other assets/(liabilities) in disposal groups	60.7	-
Revaluation losses	-	(25.1)
Revaluation gains	1.4	-
Impairments (losses)/reversals	(1.1)	(0.1)
Assets declassified as held for sale:		
- Property, plant and equipment	(5.2)	-
Assets sold	(6.5)	(262.2)
Other Movements	(0.2)	-
Balance outstanding at year end	**288.3**	**4.2**
Liabilities in Disposal Groups	70.6	-

Included within Assets Held for Sale in 2014/15 were those assets of the National Exhibition Centre which the Council disposed of on 1 May 2015. The assets held by the Group at 31 March 2015, fair value of £283.8m, which formed part of the NEC disposal agreement were a combination of land and buildings and other assets and liabilities.

The Liabilities in 2014/15 related to the NEC Ltd. are shown separately on the balance sheet under Liabilities in Disposal Groups.

Details of the other Assets Held for Sale are set out in Note 27 to the Council entity accounts.

Note G10
Financial Instruments

Investments
The following short term investments are brought into the Group Financial Statements upon group consolidation:

	Short-term	
	31 March 2015	31 March 2016
	£m	£m
Investments		
Loans and receivables	1.5	-

Debtors and Cash
Debtors and cash consolidated as part of the Group Financial Statements are classified as loans and receivables. Further information on Group debtors is provided in Note G11.

Creditors
Short term creditors consolidated as part of the Group Financial Statements are classified as financial liabilities at amortised cost. Further information on Group creditors is provided in Note G12.

Long term creditors consolidated as part of the Group Financial Statements relate to debt issued by NEC (Developments) Plc on the London Stock Exchange. The following long term creditors are brought into the Group Financial Statements upon group consolidation.

	Long-term	
	31 March 2015	31 March 2016
	£m	£m
Creditors		
Financial liabilities at amortised cost	(73.1)	(73.1)

Income, Expense, Gains and Losses
These amounts in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Fair Values of Assets and Liabilities
The amounts consolidated as part of the Group Financial Statements are not considered significantly different from the carrying amounts.

Nature and extent of risks arising from financial instruments
The nature and extent of risks from financial instruments arising in the Group Financial Statements are not considered materially different from those in the Council entity accounts.

Note G11
Short Term Debtors

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

31 March 2015		31 March 2016
£m		£m
62.4	Central government bodies	48.6
12.2	Other local authorities	19.7
9.7	NHS bodies	5.0
0.1	Public corporations and trading funds	1.7
217.3	Other entities and individuals	206.2
301.7	**Total**	**281.2**

Note G12
Short Term Creditors

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

31 March 2015		31 March 2016
£m		£m
(30.3)	Central government bodies	(40.3)
(5.7)	Other local authorities	(5.8)
(5.9)	NHS bodies	(3.8)
(33.6)	Public corporations and trading funds	(36.2)
(263.4)	Other entities and individuals	(243.3)
(338.9)	**Total**	**(329.4)**

Note G13
Usable Reserves

Details of the Group's usable reserves are detailed below.

31 March 2015 £m		31 March 2016 £m
332.5	General Fund	227.7
16.3	Capital Receipts Reserve	312.1
347.5	Earmarked General Fund Reserves	389.3
4.5	Housing Revenue Account (HRA)	4.6
15.8	Major Repairs Reserve	5.8
104.1	Capital Grants Unapplied	73.0
(279.0)	Profit and Loss Reserve	(77.9)
(8.7)	Designated Funds	(19.0)
(17.9)	Other Charitable Funds	(23.0)
4.8	Merger Reserve	4.8
519.9	**Total**	**897.4**

Further analysis is provided below for material usable reserves.

Movements in the General Fund are set out in the Council and Group Movement in Reserves Statements, further supported by Note 6 to the Council entity accounts. Differences arising on group consolidation are set out in Note G22 to the Group Accounts.

Profit and Loss Reserve

The Profit and Loss Reserve consolidates the in-year results for subsidiaries. In the Group Financial Statements it is kept separate from the General Fund given the specific statutory restrictions that apply to the General Fund. Depreciation charges in subsidiaries remain as charges to the Profit and Loss Reserve.

2014/15 £m		2015/16 £m
(247.0)	**Balance at 1 April**	**(279.0)**
(32.0)	In year profit and loss result for subsidiaries, adjusted for Group accounting policies and elimination of intra-group transactions	201.1
(279.0)	**Balance at 31 March**	**(77.9)**

Note G14
Unusable Reserves

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

31 March 2015 £m		31 March 2016 £m
787.2	Revaluation Reserve	983.1
271.4	Capital Adjustment Account	(290.8)
(29.7)	Financial Instruments Adjustment Account	(27.9)
50.1	Deferred Capital Receipts	30.0
(2,356.1)	Pensions Reserve	(2,087.7)
(13.8)	Collection Fund Adjustment Account	(22.9)
(561.3)	Equal Pay Back Pay Account	(299.6)
(21.6)	Accumulated Absences Account	(16.9)
0.8	Available for Sale Financial Instruments Reserve	0.2
0.7	Called up Share Capital	0.7
4.5	Restricted Funds	5.6
8.2	Share Premium Account	-
(1,859.6)	**Total**	**(1,726.2)**

Further analysis is provided below for unusable reserves which are materially different from the balances included in the Council entity accounts.

<u>Revaluation Reserve</u>

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

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

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

2014/15 £m		2015/16 £m
852.0	**Balance at 1 April**	**787.2**
	Revaluations not posted to (Surplus)/Deficit on the Provision of Services	
217.7	Council: Upward revaluation of assets	410.8
(101.6)	Council: Downward revaluation of assets	(78.5)
(124.2)	Council: Impairment (losses)/reversals not charged to the Surplus/Deficit on the Provision of Services	(73.3)
(8.1)	**Council: Surplus/(Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**	**259.0**
	Amounts written off to the Capital Adjustment Account	
(9.4)	Council: Difference between fair value depreciation and historical cost depreciation	(8.3)
(25.7)	Council: Accumulated gains on assets sold or scrapped	(17.4)
(10.8)	Council: Adjustment for transfer of land to Investment Property	-
(45.9)	**Council: Amount written off to the Capital Adjustment Account**	**(25.7)**
	Group Movements	
-	Increase in Group's share of revaluation reserve resulting from increased stake in entity	
(10.8)	Other movements in reserve in Group entities	(37.4)
(10.8)	**Total Group Movements**	**(37.4)**
787.2	**Balance at 31 March**	**983.1**

Note G15
Cash Flow Statement - Operating Activities

The cash flows from operating activities include the following items:

2014/15 £m		2015/16 £m
(16.4)	Interest Received	(14.2)
201.5	Interest Paid	190.5
(6.2)	Dividends Received	(20.7)

Note G16
Cash Flow Statement - Investing Activities

The cash flows from investing activities are set out below. The figures for 2014/15 have been restated to reflect the amount that relates to discontinued operations as a result of the sale of NEC Group Limited.

2014/15 (Restated) £m		2015/16 £m
(326.8)	Purchase of property, plant and equipment, investment property and intangible assets	(326.8)
(3,191.8)	Purchase of short-term and long-term investments	(3,289.0)
57.9	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	355.2
-	Proceeds from the sale of subsidiary (NEC Group)	224.8
3,228.1	Proceeds from short-term and long-term investments	3,305.4
0.3	Other receipts from investing activities	0.6
(18.8)	Investing activities relating to discontinued operations	-
(251.1)	**Net cash flows from investing activities**	**270.2**

Note G17
Cash Flow Statement - Financing Activities

The cash flows from financing activities are set out below. The figures for 2014/15 have been restated to reflect the amount that relates to discontinued operations as a result of the sale of NEC Group Limited.

2014/15 (Restated) £m		2015/16 £m
57.3	Other receipts from financing activities	103.7
2,069.8	Cash receipts of short-term and long-term borrowing	1,055.0
(28.4)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(40.2)
(2,014.3)	Repayments of short-term and long-term borrowing	(1,211.8)
(3.6)	Other payments for financing activities	8.7
11.3	Financing activities relating to discontinued operations	-
92.1	**Net cash flows from financing activities**	**(84.6)**

Note G18
Amounts Reported for Resource Allocation Decisions (Segmental Analysis)

Detail of the Council's Segmental Analysis is provided in Note 19 to the entity accounts.

Net expenditure reported to Cabinet detailed within Note 19 to the Council entity accounts is unchanged by the consolidation of the group entities and has therefore been excluded. The Segmental Analysis reconciliation to both the Cost of Services in the Comprehensive Income and Expenditure Statement and the Council's Subjective Analysis are as follows:

Reconciliation of Directorate Net Expenditure to Cost of Services in the Group CIES

	2014/15	2015/16
	£m	£m
Net expenditure	1,021.3	913.6
Amounts in the Group Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis	75.5	(34.8)
Amounts in the Group Comprehensive Income and Expenditure Statement related to Group Accounts Consolidation not reported to Cabinet in the Analysis	(16.5)	(7.9)
Amounts included in the Analysis not included in the Group Comprehensive Income and Expenditure Statement	(215.5)	(26.1)
Cost of Services in Group Comprehensive Income and Expenditure Statement	**864.8**	**844.8**

Reconciliation to Subjective Analysis

2015/16	**Directorate Analysis**	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(622.6)	61.9	6.6	-	**(554.1)**	(61.2)	**(615.3)**
Support service recharges	(390.1)	(64.1)		454.2	**-**	-	**-**
Collection Fund Surplus					**-**	(5.7)	**(5.7)**
Group consolidation subsidiary adjustments		(20.1)			**(20.1)**	(19.8)	**(39.9)**
Surplus on associates and joint ventures					**-**	(6.7)	**(6.7)**
Gain on disposal of a subsidiary					**-**	(86.4)	**(86.4)**
Interest and investment income	(5.2)		5.2		**-**	(30.6)	**(30.6)**
Income from Council Tax					**-**	(271.2)	**(271.2)**
Government grants and contributions	(1,659.6)	7.6	106.5		**(1,545.5)**	(851.8)	**(2,397.3)**
Gain on disposal of Grand Central					**-**	(112.1)	**(112.1)**
Total income	**(2,677.5)**	**(14.7)**	**118.3**	**454.2**	**(2,119.7)**	**(1,445.5)**	**(3,565.2)**
Employee expenses	1,056.8	(72.7)			**984.1**	-	**984.1**
Other service expenses	2,118.1	(54.5)			**2,063.6**	66.1	**2,129.7**
Support service recharges	260.5	66.0		(454.2)	**(127.7)**	-	**(127.7)**
Collection Fund Deficit					**-**	15.8	**15.8**
Group consolidation subsidiary adjustments		12.2			**12.2**	20.4	**32.6**
Deficit on associates and joint ventures					**-**	0.3	**0.3**
Depreciation, amortisation and impairment	155.7	21.0	(92.5)		**84.2**	-	**84.2**
Interest payments and pensions costs					**-**	255.3	**255.3**
Precepts and levies			(51.9)		**(51.9)**	51.9	**-**
Payments to Housing Capital Receipts pool					**-**	6.6	**6.6**
(Gain)/Loss on disposal of non-current assets					**-**	93.1	**93.1**
Total expenditure	**3,591.1**	**(28.0)**	**(144.4)**	**(454.2)**	**2,964.5**	**509.5**	**3,474.0**
Group (Surplus)/Deficit	**913.6**	**(42.7)**	**(26.1)**	**-**	**844.8**	**(936.0)**	**(91.2)**

2014/15	**Directorate Analysis**	Amounts not included in Analysis but within CIES	Amounts included in Analysis but not included in CIES	Allocation of Support Service Recharges	**Cost of Services in CIES**	Amounts reported below the Net Expenditure of Continuing Operations in the CIES	**Total**
	£m	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(356.4)	60.4	(242.6)		(538.6)	(64.2)	(602.8)
Support service recharges	(423.9)			423.9	-		-
Collection Fund Surplus					-	(7.0)	(7.0)
Group consolidation subsidiary adjustments		(16.7)			(16.7)	(140.1)	(156.8)
Surplus on associates and joint ventures					-	(6.3)	(6.3)
Interest and investment income	(9.6)		9.6		-	(22.3)	(22.3)
Income from Council Tax					-	(261.8)	(261.8)
Government grants and contributions	(1,705.0)		116.5		(1,588.5)	(922.6)	(2,511.1)
Total income	**(2,494.9)**	**43.7**	**(116.5)**	**423.9**	**(2,143.8)**	**(1,424.3)**	**(3,568.1)**
Employee expenses	1,074.2	0.6			1,074.8		1,074.8
Other service expenses	1,966.5	(62.7)	(99.0)		1,804.8	68.0	1,872.8
Support service recharges	311.3	1.8		(423.9)	(110.8)		(110.8)
Collection Fund Deficit					-	5.4	5.4
Group consolidation subsidiary adjustments		0.2			0.2	126.5	126.7
Deficit on associates and joint ventures					-		-
Depreciation, amortisation and impairment	164.2	75.4			239.6		239.6
Interest payments and pensions costs					-	260.5	260.5
Precepts and levies					-	54.9	54.9
Payments to Housing Capital Receipts pool					-	5.7	5.7
(Gain)/Loss on disposal of non-current assets					-	73.1	73.1
Total expenditure	**3,516.2**	**15.3**	**(99.0)**	**(423.9)**	**3,008.6**	**594.1**	**3,602.7**
Group (Surplus)/Deficit	**1,021.3**	**59.0**	**(215.5)**	**-**	**864.8**	**(830.2)**	**34.6**

Note G19
Related Parties

Details of the Council's material transactions with related parties are provided in Note 48 to the Council entity accounts.

In addition to the related parties detailed within Note 48 to the Council entity accounts those included below are deemed to be related parties of the Group – bodies or individuals with the potential to control or significantly influence the Group entities or to be controlled or significantly influenced by the Group entities. Where in-year transactions and outstanding balances between Group entities and associated related parties are £1m or greater, they are disclosed below. The Group entities and their relationships with the Council are detailed in Notes G24 and G25.

	Purchased From £m	Sold To £m	Net amount Due (To)/From £m
The National Exhibition Centre (Developments) Plc			
Performances Birmingham Limited			
Performances Birmingham (Enterprises) Limited			
Innovation Birmingham Limited			
Birmingham Science Park Aston Limited			
Birmingham Technology (Property) Limited			
Birmingham Technology (Property One) Limited			
Birmingham Technology Venture Capital Limited			
Birmingham Museums Trust			
Thinktank Trust			
Birmingham Museums Trading Limited			
Acivico Limited			
Acivico Design Construction and Facilities Management Limited			
Acivico (Building Consultancy) Limited			
PETPS (Birmingham) Limited			
Paradise Circus General Partner Limited			
Paradise Circus Nominee 1 Limited			
Paradise Circus Nominee 2 Limited			
Birmingham Airport Holdings Limited			
West Midlands District Councils via (Solihull MBC)			(4.7)
Solihull MBC	Solihull MBC is the local authority for the airport and transacts with the Company in a number of areas including business rates, planning applications and building control services. All of these transactions are carried out on an arms length basis at a full commercial rate.		
National Exhibition Centre Limited (disposed of on 1 May 2015)			
National Exhibition Centre (Ireland) Limited			
NEC Finance Plc			
NEC Pension Trustee Company Limited			
NEC Property (Number One) Limited			
MPM Catering Limited			
Sports Show Limited			

Note G20
Leases

Group as the lessee

Finance leases

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

Operating leases

Details of the Council's operating leases are provided in Note 42 to the Council entity accounts.

Group as the lessor

Finance leases

Details of the Council's finance leases are provided in Note 42 to the Council entity accounts.

The Council is the lessor for premises leased to Innovation Birmingham Group Limited (IBL). As a group subsidiary entity, these leases are eliminated from the group accounts. The information in the section below provides details of the material leases with group entities, which are to be excluded from the disclosures provided in Note 42 to the Council entity accounts in deriving the group disclosures.

31 March 2015 £m		31 March 2016 £m
	Finance lease debtor (net present value of minimum lease payments):	
-	- Current	-
7.7	- Non current	7.7
14.0	Unearned finance income	13.8
(0.1)	Unguaranteed residual value of property	(0.1)
21.6	**Gross investment in the lease**	**21.4**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross investment in the lease		Minimum lease payments	
	31 March 2015 £m	31 March 2016 £m	31 March 2015 £m	31 March 2016 £m
Not later than one year	-	-	0.2	0.2
Later than one year and not later than five years	0.1	0.1	0.7	0.7
Later than five years	7.6	7.6	20.7	20.5
Total	**7.7**	**7.7**	**21.6**	**21.4**

Note G21
Defined Benefit Pension Schemes

Details of the Council's involvement in the Teachers' Pensions Scheme and Local Government Pension Scheme are provided in Notes 10 and 11 to the Council entity accounts.

PETPS (Birmingham) Limited
Following completion of the sale of the NEC Group by the Council on 1 May 2015, NEC Limited was replaced as principal employer by PETPS (Birmingham) Limited (PETPS), a wholly owned subsidiary of the Council, which assumed the ongoing funding obligation of the NEC Limited Pension Fund (the Fund) and the NEC Executive Pension Scheme (the Scheme) with the agreement of the pension trustees. The Fund and the Scheme had ceased to provide future service accrual with effect from 30 June 2010.

The Fund and the Scheme are defined benefit schemes, operating under UK trust law, which pay out pensions at retirement based on service and final pay. The trustee boards of the Fund and the Scheme are independent of the Council and are responsible for setting certain policies (for example, investment and contribution policies).

Under the guarantees provided, the Council is responsible for meeting the current and future contingent funding obligations. The Fund and the Scheme therefore expose the Council to actuarial risks, such as longevity, currency, interest rate and market (investment) risk.

The assets of the Fund and the Scheme are held separately from those of PETPS and the Council. On the advice of an independent qualified actuary, contribution payments are made to the Fund and the Scheme by the Council to ensure that the assets are sufficient to cover future liabilities. Assets of the Fund and the Scheme are measured using fair market values.

The retirement benefit obligations in respect of the defined benefit schemes as calculated in accordance with IAS 19 (revised 2011) are disclosed below. Comparative figures for 2014/15 for the Fund and the Scheme have been provided.

Balance Sheet

The following amounts have been recognised in the PETPS' balance sheet and so consolidated into the Group Balance Sheet.

	31 March 2015 £m	31 March 2016 £m
Present value of funded obligations	(177.8)	(171.2)
Fair value of plan assets	141.2	157.4
Deficit for funded plans	(36.6)	(13.8)
Unrecognised asset due to the asset ceiling	-	-
Retirement Benefit Obligation	**(36.6)**	**(13.8)**

Income Statement

The amounts recognised in PETPS' Income Statement and consolidated into the Group Consolidated Income and Expenditure Statement are as follows:

	2014/15 £m	2015/16 £m
Operating Costs:		
Administration Expenses	-	0.4
Current Service Cost	-	-
Included in Operating Cost	-	0.4
Financing Costs:		
Interest cost on pension scheme liabilities	6.5	5.9
Interest income on plan assets	(5.5)	(5.3)
Net interest cost	1.0	0.6
Total income statement expense	**1.0**	**1.0**

Other Comprehensive Income

The amounts recognised in PETPS' Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2014/15 £m	2015/16 £m
Return on plan assets in excess of interest income	10.1	(4.1)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(24.9)	3.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.5	1.7
Actuarial gain/(loss) on liabilities due to experience	1.3	1.8
Remeasurement gain/(loss) recognised during the period	**(13.0)**	**3.4**

Reconciliation of Liabilities and Assets

Movements in the retirement benefit obligations are as follows:

	2014/15 £m	2015/16 £m
Beginning of Period	(152.8)	(177.8)
Interest Cost	(6.5)	(5.9)
Actuarial gain/(loss) on liabilities due to changes in financial assumptions	(24.9)	3.9
Actuarial gain/(loss) on liabilities due to changes in demographic assumptions	0.5	1.7
Actuarial gain/(loss) on liabilities due to experience	1.3	1.8
Benefits Paid	4.6	5.0
Present value of obligation at 31 March	**(177.8)**	**(171.2)**

Movements in the fair value of plan assets are as follows:

	2014/15 £m	2015/16 £m
Beginning of Period	128.2	141.2
Interest income on plan assets	5.5	5.3
Return on plan assets in excess on interest income	10.1	(4.1)
Contributions by employer	2.0	20.5
Administration expenses paid	-	(0.4)
Benefits paid	(4.6)	(5.0)
Fair value of plan assets at 31 March	**141.2**	**157.4**

Movements in the reimbursement right are as follows:

	2014/15 £m	2015/16 £m
Surplus/(Deficit) at start of year	(24.6)	(36.6)
Expense (charge)/credit	(1.0)	(1.0)
Employer contributions	2.0	20.5
Remeasurement gain/(loss) in Other Comprehensive Income	(13.0)	3.4
Surplus/(Deficit) at end of year	**(36.6)**	**(13.7)**

Plan Assets

The major categories of plan assets are as follows:

	31 March 2015		31 March 2016	
	£m	%	£m	%
Equities, GTAA and hedge funds	66.0	47	74.6	47
Bonds and Cash	28.9	20	62.6	40
Property	13.0	9	13.8	9
Gilts	33.3	24	6.4	4
	141.2	**100**	**157.4**	**100**

Assumptions

The principal assumptions made by the actuary were:

	1 May 2015 %	31 March 2016 %
Discount rate	3.4	3.5
RPI Inflation rate	3.0	3.1
CPI Inflation rate	2.0	2.1
Future Pension increases		
- pension accrued prior to 5 April 2005	2.9	3.0
- pension accrued after 5 April 2005	2.1	2.1

The base mortality assumptions of the Fund are based on SAPS tables (S1 series) and for the Scheme are based on SAPS light tables (S1 series). Future improvements are based on the CMI 2015 projection with long term rate of improvement of 1.25% pa (2014/15: 1.25%).

The life expectancy for members as at the balance sheet date:

	1 May 2015 Years		31 March 2016 Years	
	Fund	Scheme	Fund	Scheme
Male: member aged 65 (current life expectancy)	22.2	23.9	22.0	23.7
Female: member aged 65 (current life expectancy)	24.6	25.2	24.4	25.0
Male: member aged 45 (life expectancy at age 65)	23.9	25.5	23.7	25.4
Female: member aged 45 (life expectancy at age 65)	26.5	27.1	26.3	26.9

Sensitivity Analysis

An increase of 0.25% in the discount rate would decrease the retirement benefit obligations by £8.8m
An increase of 0.25% in the inflation rate would increase the retirement benefit obligations by £9.3m
An increase of one year to life expectancy would increase the retirement benefit obligations by £6.4m
The duration of the plan liabilities is approximately 22 years

Expected Contributions for 2016/17

The Council is not expected to pay contributions in respect of the Fund or Scheme in the 2016/17 financial year.

Acivico Limited Group

The Company's subsidiary companies participate in the West Midlands Pension Fund, a Local Government Pension Scheme.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2014/15 £m	2015/16 £m
Present value of funded defined benefit obligations	(48.9)	(49.7)
Fair value of plan assets	46.4	47.6
Net (Liability)/Asset	**(2.5)**	**2.2**

Movements in the present value of defined benefit obligation:

	2014/15 £m	2015/16 £m
Balance at beginning of period	38.1	48.9
Current service cost	1.2	2.3
Interest cost	1.8	1.6
Actuarial (gains)/losses	8.2	(3.2)
Contributions by members	0.4	0.6
Curtailment	0.1	-
Benefits paid	(0.9)	(0.5)
31 March	**48.9**	**49.7**

Movements in the fair value of plan assets:

	2014/15 £m	2015/16 £m
Balance at beginning of period	40.0	46.4
Interest on assets	1.8	1.6
Gain/loss on settlement or curtailment	4.3	(1.7)
Past service cost	-	-
Contributions	1.1	1.8
Benefits paid	(0.9)	(0.5)
31 March	**46.4**	**47.6**

Expense recognised in the profit and loss account:

	2014/15 £m	2015/16 £m
Operating Costs:		
Current Service Cost	1.2	2.3
Included in Operating Cost	1.2	2.3
Financing Costs:		
Interest cost on pension scheme liabilities	1.8	1.6
Interest income on plan assets	(1.8)	(1.6)
Net interest cost	-	-
Total income statement expense	**1.2**	**2.3**

Other Comprehensive Income

The amounts recognised in Acivico's Other Comprehensive Income and consolidated into the Group Consolidated Other Comprehensive Income are as follows:

	2014/15	2015/16
	£m	£m
Actuarial (gain)/loss on liabilities	8.2	(3.2)
(Gain)/loss on settlement or curtailment	0.1	-
Actuarial (gain)/loss on plan assets	(4.3)	1.7
Remeasurement (gain)/loss recognised during the period	**4.0**	**(1.5)**

The fair value of the plan assets and the return on those assets were as follows:

	2014/15		2015/16	
	Fair Value		Fair Value	
	£m	%	£m	%
Equities	27.4	59	28.8	60
Government Bonds	3.7	8	3.7	8
Other Bonds	4.9	10	2.2	5
Property	4.0	9	3.9	8
Cash/Liquidity	1.9	4	2.2	5
Other	4.5	10	6.8	14
Total	**46.4**	**100**	**47.6**	**100**

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2014/15	2015/16
	%	%
Discount rate	3.3	3.8
Future salary increases	3.8	4.0
Future pension increases	2.0	2.2

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below.

The life expectancy for members as at the balance sheet date:

	31 March 2015	31 March 2016
Male: member aged 65 (current life expectancy)	22.9	23.0
Female: member aged 65 (current life expectancy)	25.5	25.7
Male: member aged 45 (life expectancy at age 65)	25.1	25.3
Female: member aged 45 (life expectancy at age 65)	27.8	28.0

Birmingham Museums Trust Limited
The Museums Trust participates in the West Midlands Pension Fund, a Local Government Pension Scheme, for those staff who transferred from the Council to the Trust.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown. The information for 2014/15 has been presented on the basis of FRS102 for comparative purposes.

	2014/15 £m	2015/16 £m
Present value of funded defined benefit obligations	(15.1)	(14.4)
Fair value of plan assets	13.8	13.8
Net (Liability)/Asset	**(1.3)**	**(0.6)**

Movements in the present value of defined benefit obligation:

	2014/15 £m	2015/16 £m
Balance at beginning of period	11.2	15.1
Current service cost	0.4	0.4
Interest cost	0.5	0.5
Change in financial assumption	2.9	(1.4)
Contributions by members	0.1	0.1
Past service cost, including curtailments	-	0.2
Benefits paid (net of transfers in)	(0.1)	(0.4)
31 March	**15.1**	**14.4**

Movements in the fair value of plan assets:

	2014/15 £m	2015/16 £m
Balance at beginning of period	11.7	13.8
Interest on assets	0.5	0.5
Return on assets	1.3	(0.5)
Contributions by employer	0.3	0.4
Contributions by members	0.1	0.1
Benefits paid (net of transfers in)	(0.1)	(0.4)
31 March	**13.8**	**13.8**

Expense recognised in the profit and loss account:

	2014/15 £m	2015/16 £m
Current service cost	0.4	0.4
Interest on defined benefit pension plan obligation	0.5	0.5
Curtailment	-	0.2
Expected return on defined benefit pension plan assets	(0.5)	(0.5)
Total	**0.4**	**0.6**

The expense is recognised in the following line items in the profit and loss account:

	2014/15 £m	2015/16 £m
Administrative expenses	0.4	0.4
Other interest receivable and similar income	-	0.2
	0.4	**0.6**

The fair value of the plan assets and the return on those assets were as follows:

	2014/15 Fair Value		2015/16 Fair Value	
	£m	%	£m	%
Equities	8.1	59	8.4	61
Government Bonds	1.1	8	1.1	8
Other Bonds	1.5	11	0.6	5
Property	1.2	9	1.1	8
Cash/Liquidity	0.6	4	0.6	4
Other	1.3	9	2.0	14
Total	**13.8**	**100**	**13.8**	**100**
Actual return on plan assets:	1.8		(0.1)	

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2014/15 %	2015/16 %
Discount rate	3.4	3.9
Future salary increases	3.9	4.0
Future pension increases	2.1	2.2
Rate of CPI inflation	2.1	2.2

In valuing the liabilities of the pension fund at 31 March 2016, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2016 would have increased by £1.4m.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Life expectancy from age 65 years		2014/15	2015/16
Retiring today:	male	23.0	23.0
:	female	25.6	25.7
Retiring in 20 years:	male	25.2	25.3
:	female	28.0	28.0

Note G22
Adjustments between Group Accounts and Council Accounts

The following adjustments are made in the Group's Movement in Reserves Statement in order to reconcile the General Fund balance back to its Council position prior to funding basis adjustments being made.

	General Fund Balance £m	Earmarked General Fund Reserves £m	Housing Revenue Account (HRA) £m	Capital Receipts Reserve £m	Major Repairs Reserve £m	Capital Grants Unapplied £m	**Total Usable Reserves £m**	Unusable Reserves £m	**Total Council Reserves £m**	Council's Share of Reserves of Subsidiaries, Associates and Joint Ventures £m	**Total Group Reserves £m**
2014/15											
Intra group capital grants	(15.7)						(15.7)		(15.7)	15.7	-
Provision of goods and services to subsidiaries	1.6						1.6		1.6	(1.6)	-
Purchases of goods and services from subsidiaries	(53.7)						(53.7)		(53.7)	53.7	-
Total adjustments between Group accounts and Council accounts	**(67.8)**	**-**	**-**	**-**	**-**	**-**	**(67.8)**	**-**	**(67.8)**	**67.8**	**-**
2015/16											
Provision of goods and services to subsidiaries	7.1						7.1		7.1	(7.1)	-
Purchases of goods and services from subsidiaries	(29.1)						(29.1)		(29.1)	29.1	-
Impairment of capital contribution to subsidiary	(66.3)						(66.3)		(66.3)	66.3	-
Total adjustments between Group accounts and Council accounts	**(88.3)**	**-**	**-**	**-**	**-**	**-**	**(88.3)**	**-**	**(88.3)**	**88.3**	**-**

Note G23
Analysis of Minority Interest Shares in Group Comprehensive Income and Expenditure Statement and Total Movement in Balance Sheet

This analysis is not intended as an analysis of the movement in the Minority Interest balance recorded in the balance sheet and so does not include such opening balances.

2014/15				2015/16		
Council	Minority Interests	Total		Council	Minority interests	Total
£m	£m	£m		£m	£m	£m
41.0	-	41.0	(Surplus)/Deficit on the provision of services	(84.8)	-	(84.8)
(6.3)	-	(6.3)	Share of Associates	(6.4)	-	(6.4)
468.6	-	468.6	Other Comprehensive (Income)/Expenditure	(463.2)	-	(463.2)
503.3	**-**	**503.3**	**Total Comprehensive (Income)Expenditure**	**(554.4)**	**-**	**(554.4)**
			Changes in Equity	43.5	-	43.5
503.3	-	**503.3**	**Total movement in Balance Sheet**	**(510.9)**	-	**(510.9)**

Note G24
Subsidiary Companies

The Council maintains involvement with a number of subsidiary and associate companies where the assets and liabilities of these companies are not included in the Council's core financial statements. Group Financial Statements have been prepared in accordance with the Code.

The subsidiaries that have been consolidated into the Group Financial Statements are listed below. On 1 May 2015, the Council disposed of its interests in The National Exhibition Centre Limited Group and has included only the activity up to that date in these financial statements.

I. The National Exhibition Centre (Developments) Plc

The company was set up to provide an additional 30,000 square metres of exhibition space in four halls. The building was financed by a loan stock issue of £73 million by the company which is guaranteed by the Council. The Council has held all 1,000 issued ordinary shares of £1 each and all 100,000 £1 preference shares throughout the reporting period covered by these financial statements.

The Council has loan notes totalling £0.8m (2014/15: £1.1m). The loan notes are repayable in instalments and repayments commenced in 2014/15. The loss before and after tax for the year ended 31 March 2016, amounted to £1.2m (2014/15: £0.02m). The net assets of the company at 31 March 2016 amounted to £12.7m (2014/15: net liabilities of £2.3m).

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

Included in the disposal of NEC Ltd, as set out in VII. below, were building assets held by National Exhibition Centre (Developments) Plc in respect of Halls 17-20, which formed part of the sale. These assets were categorised as Assets Held for Sale within the Group Financial Statements at 31 March 2015.

The Council continues to retain ownership of NEC (Developments) Plc.

II. Innovation Birmingham Limited Group

The Innovation Birmingham Group of companies aims to promote, encourage, and secure the development and management of a science park in Birmingham. The Council holds a debenture over the property of the group as security for its financial guarantees. The Council is the sole member of Innovation Birmingham Limited Group which is a company limited by guarantee. The Council is also entitled to appoint up to seven members of the company and five of the nine voting directors. Furthermore, additional control by the Council is exercised by its 71% share of directors' voting rights. The Council's direct interest in Birmingham Technology (Property) Limited (a subsidiary company of BTL) is 1,250 £1 ordinary shares (12.5% interest). The Council also directly holds 500 £1 ordinary shares (9.1% interest) in Birmingham Technology (Venture Capital) Limited. The Articles of Association for Innovation Birmingham Group prohibits the distribution of profits and as such dividends. The profit for the year for the group to 31 March 2016, amounted to £0.04m (2014/15: £0.8m), with net assets at 31 March 2016 amounting to £0.5m (2014/15:£0.02m).

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this company.

Information regarding transactions during the year and balances held at the year end between the Council and Innovation Birmingham Limited Group can be found within Note 48 of the Council entity accounts.

III. Performances Birmingham Limited

Performances Birmingham Limited is the Charity that manages and runs Birmingham Town Hall and Symphony Hall. The company is limited by guarantee and was founded by Birmingham City Council in collaboration with The University of Aston and Lloyds Bank in 1982. The Charity is solely controlled by the Council with the financial statements prepared in accordance with the Charity Commission's Statement of Recommended Practice. This means that there are restrictions on the use of the funds which are available to the Charity. The net income for the year for the group to 31 March 2016, amounted to £0.2m (2014/15: £0.1m net expenditure), with net assets at 31 March 2016 amounting to £2.1m (2014/15: £1.9m).

The year end of the charity is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of this charity.

Information regarding transactions during the year and balances held at the year end between the Council and Performances Birmingham Limited Group can be found within Note 48 of the Council entity accounts.

IV. Birmingham Museums Trust

Birmingham Museums Trust Group is a Charity that manages nine museum sites, namely, Birmingham Museum and Art Gallery, The Museum Collection Centre, Thinktank, Soho House, Aston Hall, Museum of the Jewellery Quarter, Blakesley Hall, Weoley Castle and Sarehole Mill. The Trust is a charitable company limited by guarantee, (the Council being sole member), and is controlled by the board of trustees The financial statements are prepared in accordance with the Charity Commission's Statement of Recommended Practice, which restricts the use of funds to charitable purposes, as defined in its objects. The net income for the year for the group to 31 March 2016, amounted to £0.3m (2014/15: £0.03m), with the net assets at the 31 March 2016 amounting to £4.8m (2014/15: £3.8m).

The year end of the charity is 31 March 2016 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the charity.

Information regarding transactions during the year and balances held at the year end between the Council and Birmingham Museums Trust Group can be found within Note 48 of the Council entity accounts.

V. Acivico Limited

Acivico Limited is a registered company, which is wholly owned by Birmingham City Council. The company was launched in April 2012, with three special purpose vehicles (SPVs), one holding company and two trading companies. The two trading companies, Acivico Design Construction and Facilities Management Limited and Acivico (Building Consultancy) Limited, have been operational since April 2012 and provide a range of statutory and non-statutory services on behalf of and to Birmingham City Council and to other public and private sector clients. The Council has agreed to receive specified services from Acivico Limited for the five years up to 31 March 2017. The Council has held the £1 issued ordinary share (100%) for the whole of the reporting period covered by these financial statements.

The group made a loss after tax of £0.7m during the year to 31 March 2016 (2014/15: £0.5m profit) and the group’s net liabilities at 31 March 2016 amounted to £1.4m (2014/15: net liabilities of £4.0m).

The year end of the company is 31 March 2016 and for the purposes of consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances held at the year-end between the Council and Acivico Limited Group can be found within Note 48 of the Council entity accounts.

VI. PETPS (Birmingham) Limited

PETPS (Birmingham) Limited, a company limited by guarantee was incorporated on 14 November 2014. The company is a wholly owned subsidiary of the Council.

Following completion of the sale of the National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015, PETPS (Birmingham) Limited replaced NEC Limited as the principal employer and assumed the ongoing funding obligation of two defined benefit pension schemes with the agreement of the pension trustees.

The company had a total comprehensive income for the year ended 31 March 2016 of £nil and net assets of £nil. The company had no activity in the year ended 31 March 2015.

The year end of the company is 31 March 2016 and for the purposes of consolidation these accounts have been used.

Information regarding transactions during the year and balances held at the year end between the Council and PETPS (Birmingham) Limited can be found within Note 48 of the Council entity accounts.

VII. The National Exhibition Centre Limited Group

The Council disposed of its interest in The National Exhibition Centre Limited Group (NEC Limited) on 1 May 2015. The sale agreed involved a number of transactions, the key ones of which were:

- The sale of the Council's equity in NEC Ltd;
- The transfer of the on-going funding of the NEC defined benefit pension schemes to PETPS (Birmingham) Limited, a wholly owned subsidiary of the Council, which is consolidated in these Group financial statements;
- The termination of existing leases for assets used by NEC Ltd and entering into new lease arrangements with the purchasers.

The assets held in the Group financial statements that related to the disposal of NEC Ltd were categorised as Assets Held for Sale in the Council's Group Balance Sheet at 31 March 2015.

The company managed and operated four venues within the West Midlands, namely the National Exhibition Centre, the Genting Arena, the Barclaycard Arena and the International Conference Centre (ICC) as principal and acted as agent on behalf of the Council for the collection of sums payable under leases granted by the Council at the venues and the management of capital works.

The Council owned all 10,000 £1 'A' shares of the Company's ordinary share capital. The Birmingham Chamber of Commerce and Industry held 1 'B' share in the Company. The company has been consolidated as a wholly owned subsidiary of the Council for the period to 1 May 2015 in these financial statements.

The Council, to the point of disposal, guaranteed the group's solvency and provided grant funding. At 31 March 2015, the Council had guaranteed loans of £192.4m (2014/15: £192.4m) to the Company. The group made a loss after tax of £0.1m during the year to 31 March 2015. The group's net liabilities at 31 March 2015 amounted to £8.9m.

The year end of the Group was 31 March 2015. For the purposes of the consolidation these group accounts were used for the 2014/15 financial year and management information was used up to the date of disposal for inclusion in the 2015/16 financial statements. There was no qualification to the audit opinion on the last audited accounts of the group.

Information regarding transactions during the year and balances at the year end between the Council and the National Exhibition Centre Limited Group can be found within Note 48 of the Council entity accounts.

The subsidiary that has not been consolidated into the Group Financial Statements is listed below

I. InReach (Birmingham) Limited

The Council set up InReach (Birmingham) Limited in 2014/15, a wholly owned subsidiary of the Council, to facilitate the development of new private rented homes for market rent at St Vincent Street, Ladywood. The company has not been consolidated into the Council's Group Financial Statements as the level of transactions and balances to date is not considered material to the Group. However, it is anticipated that the level of transactions will increase in subsequent years such that the company would be consolidated into the Group Accounts at the relevant time.

Note G25
Associate and Joint Venture Companies

The associates that have been consolidated into the Group Financial Statements are listed below.

I. Birmingham Airport Holdings Limited

The main ordinary shareholders of Birmingham Airport Holdings Limited (BAH) are the seven West Midland Districts. The Seven Districts together own 49% of BAH's 324.0m ordinary shares of 1p each (Birmingham City Council owns 18.7% that is 60.5m ordinary shares). 48.25% ordinary shares are held by Airport Group Investments Limited which is owned by the Ontario Teachers' Pension Plan and Victorian Funds Management Corporation and the remaining 2.75% shares are held by an Employee Share Trust. The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. The vote of 75% of ordinary shareholders is required for certain major decisions of the company.

The seven West Midland Districts together own all £15.4m of BAH's 6.31% preference shares (The Council owns £5.9m) which are cumulative and redeemable.

The BAH Group Accounts incorporate:

- Birmingham Airport Limited;
- Birmingham Airport Operations Limited;
- Euro-Hub (Birmingham) Limited;
- Birmingham Airport (Finance) Plc;
- First Castle Developments Limited;
- Birmingham Airport Developments Limited;
- BHX Fire and Rescue Limited;
- Birmingham Airport Services Limited;
- BHX (Scotland) Limited; and
- BHX Limited Partnership.

The principal activity of the group is the operation and management of Birmingham International Airport and the provision of facilities and services associated with those operations.

The year end of the company is 31 March 2016. For the purposes of the consolidation these accounts have been used. There was no qualification to the audit opinion on the last audited accounts of the company.

BAH is accounted for as an associate for the following reasons:

- The Shareholders' Agreement provides for the Districts to cast their 49% vote in all circumstances in one consolidated block. As the Council holds 18.7% within this 49% it is considered that the Council has greater power to influence the voting of the block;

- 25% of the BAH Board of Directors (4 of 16) are Council officers or councillors.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principal of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is detailed below:

31 March 2015 £m		31 March 2016 £m
451.6	Non-Current Assets	471.5
39.9	Current Assets	132.5
(48.2)	Current Liabilities	(135.2)
(244.3)	Non-Current Liabilities	(342.8)
199.0	Net Assets	126.0
37.2	**Council Interest in Net Assets @ 18.68%**	**23.5**
121.0	**Revenue**	**130.5**
15.3	Post-Tax Profit/(Loss)	35.6
(80.6)	Other Comprehensive Income/(Expenditure)	(13.6)
(65.3)	Total Comprehensive Income/(Expenditure)	22.0

The carrying value of the Council's interest in this entity is £23.5m (2014/15: £37.2m), which is included with the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

Birmingham Airport Holdings Limited at 31 March 2016 has disclosed four existing contingent liabilities within its financial statements:

- On 13 February 2001 guarantees were provided by Birmingham Airport Holdings Limited, Birmingham Airport Limited and Euro-hub (Birmingham) Limited in support of a £105 million Corporate Bond issued by Birmingham Airport (Finance) Plc. The bond is for a period of 20 years maturing on 22 February 2021 and carries a fixed interest rate of 6.25% per annum;

- On 3 December 2013 the company along with other group members of Birmingham Airport Holdings Limited provided guarantees in support of £75m private placement senior notes received by Birmingham Airport (Finance) Plc. Series A senior notes of £30m are for a period of ten years maturing on 3 December 2023 and carry fixed interest rate of 4.472% per annum. Series B senior notes of £45m are for a period of fifteen years maturing on 3 December 2028 and carry a fixed interest rate of 4.557% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees in support of £76m private placement senior notes issued by Birmingham Airport (Finance) Plc. The notes are for a period of 25 years maturing on 30 March 2041 and carry a fixed interest rate of 3.8% per annum;

- On 30 March 2016 the company along with other group members of Birmingham Airport Holdings Limited, provided guarantees to the Royal Bank of Scotland Plc and Lloyds Bank Plc in support of a £20m banking facility made available to Birmingham Airport Holdings Limited. The facility is for a period of five years with an expiry date of 30 March 2021, with an option to extend by two further 12 month periods. At the date of the signing of its financial statements, the total amount outstanding under the facility was £nil.

II. Service Birmingham Limited

The company was incorporated on 22 December 2005 and operates between Capita Business Services Limited, who hold 650 Ordinary-B shares (68%), and Birmingham City Council who hold 300 Ordinary-A shares (32%). The company was formed to facilitate the strategic partnership between the two entities and operates within the ICT and Advisory Services division of the Capita Group Plc. Trading commenced on 1 April 2006, with the principal activity being the provision of ICT and business transformation outsourcing services to the Council.

The year end of the company is 31 December 2015, in line with that of its parent company Capita Plc. For the purposes of the consolidation these accounts have been used as they fall within three months of the Council's year end, with adjustments being made for the three month periods at the start and end of the reporting year. There was no qualification on the audit opinion for these audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2015 £m		31 March 2016 £m
7.2	Non-Current Assets	5.0
39.4	Current Assets	31.2
(41.1)	Current Liabilities	(30.8)
-	Non-Current Liabilities	-
5.5	Net Assets	5.4
1.7	**Council Interest in Net Assets @ 32%**	**1.7**
96.7	**Revenue**	**83.9**
10.7	Post-Tax Profit/(Loss)	8.4
(12.5)	Other Comprehensive Income/(Expenditure)	-
(1.8)	Total Comprehensive Income/(Expenditure)	8.4

The carrying value of the Council's interest in this entity is £1.7m (2014/15: £1.7m), which is included within the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

III. Paradise Circus Limited Partnership

The Council has entered into a joint venture arrangement with BriTel Funds Trustees Limited through Paradise Circus Limited Partnership. The partnership is facilitating the development of the area known as Paradise Circus, supporting delivery against one of the Council's strategic aims, generating economic growth and job creation through the regeneration of the area. The entity was incorporated on 11 September 2013, with operational activity commencing in January 2015. The Council and BriTel Funds Trustees Limited share control of the joint venture on a 50/50 basis.

The year end of the company was 30 June 2015. For the purposes of the consolidation these accounts have been used and supplemented by management accounts information for the nine month period to 31 March 2016. There was no qualification on the audit opinion for the last audited accounts of the company.

Following adjustments to the financial information to align accounting policies with those of the Council, in accordance with the principles of equity accounting under the Code, the summarised financial information for the associate for the year ended 31 March is as follows:

31 March 2015 £m		31 March 2016 £m
-	Non-Current Assets	6.7
-	Current Assets	13.9
-	Current Liabilities	(14.3)
-	Non-Current Liabilities	(6.8)
-	Net Assets	(0.5)
-	**Council Interest in Net Assets @ 50%**	**(0.25)**
-	**Revenue**	**17.4**
-	Post-Tax Profit/(Loss)	(0.5)
-	Other Comprehensive Income/(Expenditure)	-
-	Total Comprehensive Income/(Expenditure)	(0.5)

The carrying value of the Council's interest in this entity is a net deficit of £0.25m (2014/15: £nil), which is included within the Investments in Associates and Joint Ventures balance of £24.9m (2014/15: £38.9m), shown in the Group Balance Sheet.

Annual Governance Statement 2015/16

Annual Governance Statement 2015/16

1. Scope of responsibility

1.1. Birmingham City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and including arrangements for the management of risk.

1.3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is available as part of the Council's website. This statement explains how the Council has complied with the code and also meets the requirements of *The Accounts and Audit Regulations 2015*, regulation 6 (1)(b) which requires all relevant bodies to prepare an annual governance statement (AGS).

2. The purpose of the governance framework

2.1. Governance is about the Council ensuring it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2. The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.3. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.4. The governance framework has been in place at the Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

3. **The governance framework**

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

<u>The Council's purpose and vision for Birmingham</u>

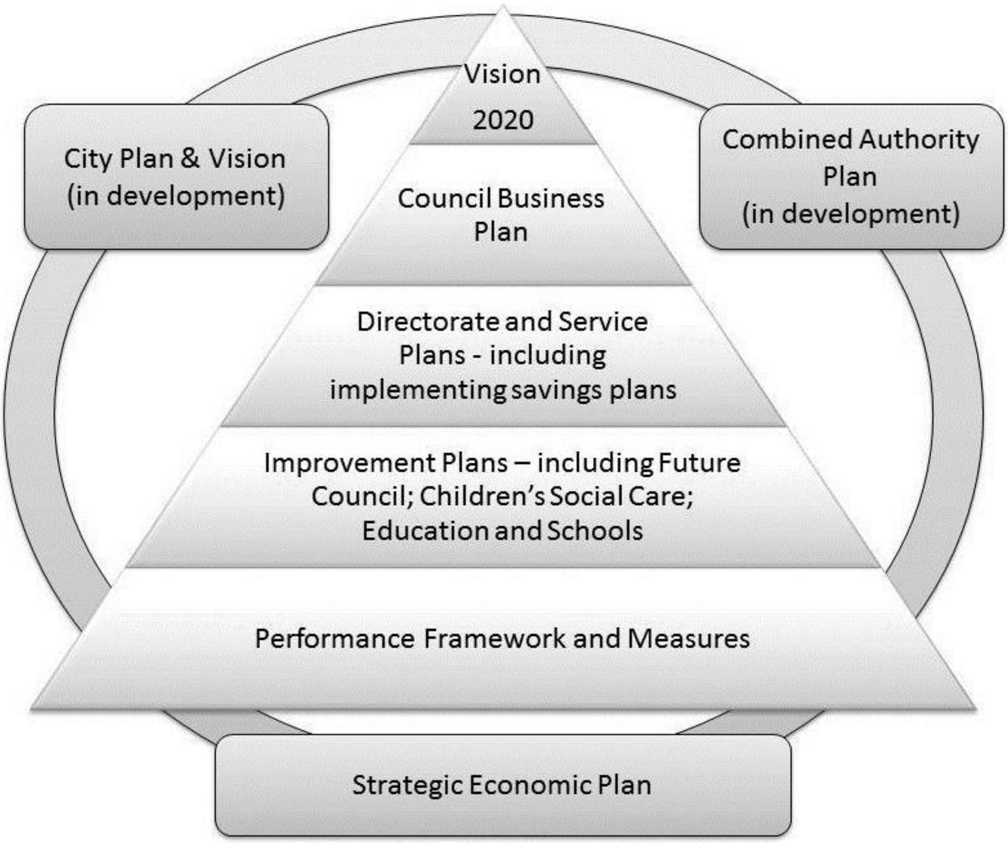
3.2. The Council Business Plan and Summary Budget 2016+ (The Plan) sets out the Council's vision and priorities in terms of the Council's contribution to strategic outcomes. The Plan is updated each year and is available on the Council's web-site.

3.3. The Plan articulates the strategic direction for the Council with a clear set of corporate priorities. These priorities have been informed by extensive consultation with the public. Progress against these priorities is monitored through a set of Council Business Plan measures, which have been formally agreed by Cabinet following discussion with Members. Regular monitoring and quarterly reporting against these measures ensures that shortfalls in performance are identified at an early stage and effective action to bring performance in line with targets is undertaken.

3.4. In turn, the corporate priorities are supported by more detailed Directorate and Service Plans which are also regularly monitored and reviewed.

3.5. The Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. Achievement of value for money is central to the Plan and the Council's long term financial strategy.

3.6. The Council's planning framework is set in the context of the wider city leadership and governance, such as: the City Plan and Vision (in development); the Combined Authority Plan (in development) and the Strategic Economic Plan (developed by the local enterprise partnerships in conjunction with the West Midlands Combined Authority). This framework will be the vehicle by which the Council's vision 2020 will be implemented in conjunction with partners. It is set out in the diagram overleaf.



3.7. The above diagram shows the high level sequence to achieve the vision 2020, including: creating the Future Council through the Future Council Programme; the implementation of the improvement plans; the directorate/service plans and the performance framework through which the Council will monitor and evaluate.

3.8. The vision 2020 is based on the fundamental ideals of prosperity, fairness and democracy, and, within that, to have a strong economy; safety and opportunity for all children; a great future for young people; thriving local communities; a healthy and happy city, and a modern council.

3.9. Due to the scale of funding reductions required and changing times in which the Council operates, there is recognition of a need for change in how the Council must work if it is to deliver the vision 2020. To address this, the Future Council Programme was set up during 2015 to deliver an integrated and strategic approach to managing the necessary changes. This has taken on board all the recommendations of the Kerslake review of corporate governance (published in December 2014), and the advice and support from the Birmingham Independent Improvement Panel (BIIP) set up in January 2015.

3.10. As part of the process for the BIIP to assess the Council's progress, the Council was asked to undertake its own self-assessment structured on the major themes which underpinned its improvement plan. The 'gap analysis' set out what the Council had achieved so far, where further progress was needed, where the Council intended to be in six months' time, key priorities to focus on and the risks that the Council needed to be prepared to address. Measures were included which the Council will monitor against. In March 2016, the BIIP reported on the positive progress the Council had made in implementing the recommendations of the Kerslake Report and recommended stepping back from the intensive review process.

3.11. The Council has adopted a new approach by looking at how it can meet the needs of citizens, through providing services directly, and a renewed focus on how it can work with partners to achieve shared aims. The Council's role, with other civic and civil leaders, is to agree the vision for Birmingham and lead the city as a joint enterprise.

3.12. The proposals for change are divided into six key themes which aim to better meet citizens' needs, make substantial savings and improve the Council's performance. They are:

- **Prevent family breakdown** - seeking to support disadvantaged families through a range of interventions so their children can thrive.
- **Maximise the independence of adults** - with Birmingham a city where getting older is a positive experience.
- **Sustainable neighbourhoods** - creating an environment which is more sustainable, reduces costs and is better for the health and wellbeing of residents.
- **Economic growth and jobs** - economic development and support for job creation, skills training and sustainable business growth can impact greatly on the prosperity and wellbeing of the city.
- **Changes to the workforce** - our direct workforce will be smaller reflecting that outcomes and services will be delivered through new models where staff will not necessarily be directly employed by the Council.
- **Council-wide** - we will continue to work more efficiently, redesigning our services so they are as lean as possible.

3.13. Profound change across local government is also underway. New city-regional leadership will be put in place through the West Midlands Combined Authority, with new powers devolved from central government to allow the Council to drive economic growth, investment and the reform of public services. The Council will become more strategic and much smaller. There will be new ways of delivering local services and new ways people can engage in their local community, such as the recently formed local council for Sutton Coldfield.

3.14. The Council has a strong public, third sector, and business engagement role. There is an established Partnership Toolkit setting out the governance and internal control arrangements which must be in place when the Council enters into partnership working. This includes arrangements for the roles of Members and Officers, and the implementation and monitoring of objectives and key targets. A programme of review against these requirements is led by Overview and Scrutiny.

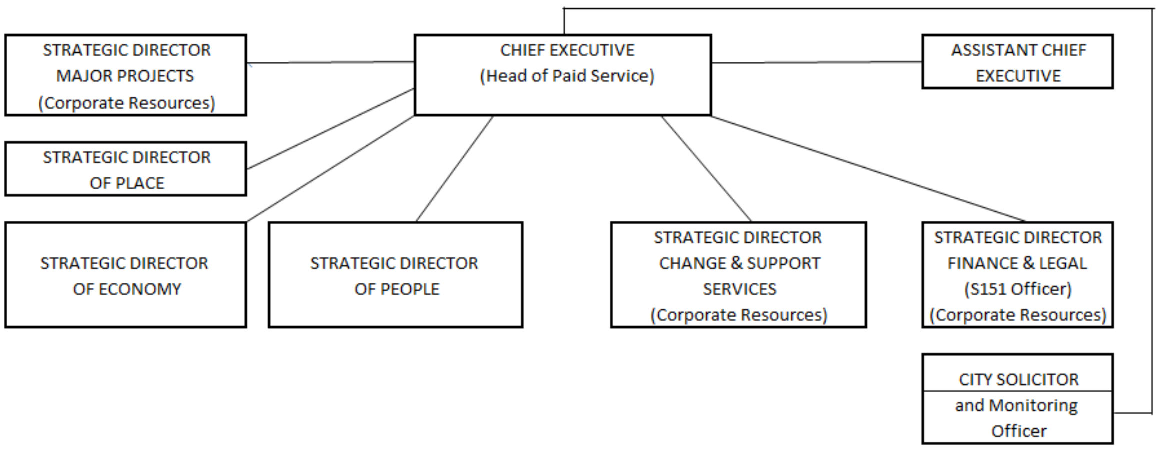
3.15. Working with partners, the Council assumes a strategic role for the Greater Birmingham area, working with the Local Enterprise Partnership (LEP) to develop collaborative solutions to common problems, and facilitating coherent programmes with regional and international partners to deliver an economic strategy for the city and region. LEP projects follow the Council's governance processes, managed and monitored through a Project Delivery Board, with regular reporting to the LEP Board by the LEP Champion.

Roles of Members and Officers

3.16. The Council's Constitution is codified into one document which is available on the intranet and the Council's website. The Constitution sets out the respective roles and responsibilities of the Cabinet and other Members and Officers and how these are put into practice. The Constitution is reviewed annually by The Monitoring Officer and any amendments are agreed at the Annual General Meeting. A revised and updated Constitution was agreed in May 2015. Further amendments were made during the year with the latest amendments made in March 2016. Any in-year changes are agreed by Cabinet and/or the Council Business Management Committee (CBMC).

3.17. The Council operates within four Directorates, Economy, Corporate Resources, People and Place.

Management Structure



3.18. In November 2015, Councillor John Clancy was elected as the new Leader of the Labour Party and was formally confirmed as Leader of the Council on 1st December 2015.

3.19. The Council facilitates policy and decision–making via an Executive Structure. There were ten members of Cabinet for the 2015/16 financial year: The Leader, Deputy Leader and eight specific Cabinet Member Portfolios based on a thematic structure as follows:

- Cabinet Member – Children's Services
- Cabinet Member – Commissioning, Contracting and Improvement
- Cabinet Member – Development, Transport and the Economy
- Cabinet Member – Sustainability
- Cabinet Member – Health and Social Care
- Cabinet Member – Neighbourhood Management and Homes
- Cabinet Member – Skills, Learning and Culture
- Cabinet Member – Inclusion and Community Safety.

3.20. On 24th May 2016 it was agreed at City Council that Cabinet would continue with ten members; The Leader and Deputy Leader and eight Cabinet Members with the following portfolios:

- Cabinet Member – Children, Families and Schools
- Cabinet Member – Value for money and Efficiency
- Cabinet Member – Transport and Roads
- Cabinet Member – Clean Streets, Recycling and Environment
- Cabinet Member – Health and Social Care
- Cabinet Member – Housing and Homes
- Cabinet Member – Jobs and Skills
- Cabinet Member – Transparency, Openness and Equality.

3.21. The CBMC has the responsibility for the planning and preparation of the agenda, papers and other arrangements for Council meetings and provides the forum for non-executive, non-scrutiny and non-regulatory matters. The Constitution sets out the terms of reference for each of the Committees and includes a schedule of matters reserved for decision by Full Council.

3.22. CBMC oversees the Council's relationship with the Independent Remuneration Panel which is chaired by an independent person. CBMC submits recommendations to the Council on the operation and membership of the Panel and amendments to the Councillors' Allowances Scheme.

3.23. CBMC also discharges the Council's functions in relation to parishes and parish councils.

3.24. The Council's Audit Committee provides independent assurance to the Council on financial management, risk management and control, and the effectiveness of the arrangements the Council has for these matters. The role of the Audit Committee includes active involvement in review of financial systems and procedures, close liaison with external audit and responsibility for the approval of the Annual Accounts.

3.25. The Council's Constitution sets out the responsibilities of both Members and senior managers. In particular the Council has identified four statutory posts as follows:-

Head of Paid Service - Chief Executive

Chief Finance Officer - Strategic Director - Finance and Legal
Monitoring Officer - City Solicitor
Scrutiny Officer - Head of Scrutiny Services

3.26. Protocols determining the roles of these officers and their relationship with Members and other Officers are set out. The Constitution also includes a Scheme of Delegation to Officers which sets out the powers of Strategic Directors.

Financial Management Arrangements

3.27. The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Role of the Chief Financial Officer:

- The Chief Finance Officer (CFO) is a key member of the Corporate Leadership Team (CLT), helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest.
- The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Council's financial strategy.
- The CFO leads the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.
- To deliver these responsibilities, the Strategic Director - Finance and Legal as the Council's CFO:

  - leads and directs a finance function that is resourced to be fit for purpose; and
  - is professionally qualified and suitably experienced.

Values and standards of conduct and behaviour

3.28. The Council has a Code of Conduct for Members and a Code of Conduct for Officers which set out the standards of conduct and personal behaviour expected and the conduct of work between members and officers. In particular the Council has clear arrangements for declaration of interests and registering of gifts and hospitality offered and received. All Council employees participate through work groups in developing actions based on these values which assist in ensuring effective service delivery and the development of the whole organisation.

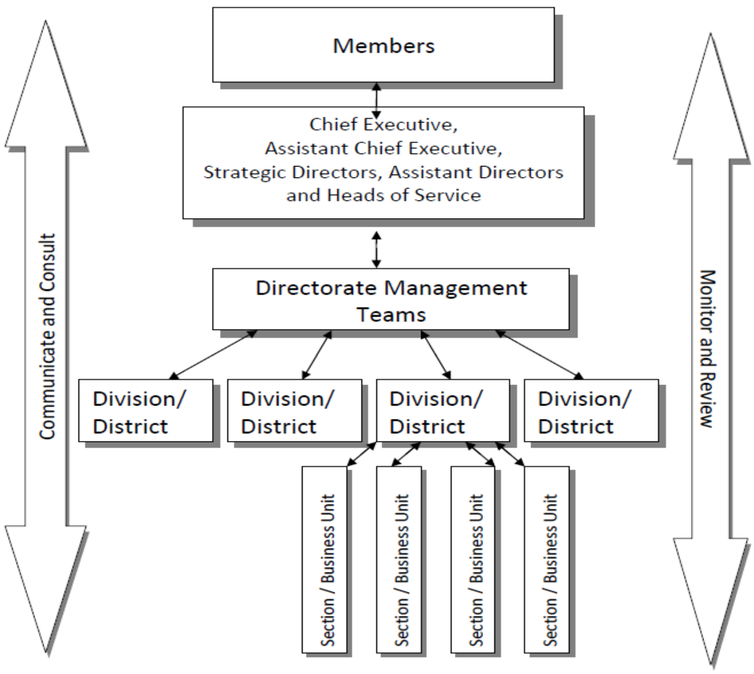
Scrutiny, Accountability and Risk Management

3.29. The Overview & Scrutiny Committees cover all Cabinet Member portfolios and the Districts collectively. All Executive decisions can be called in for Scrutiny to ensure that they are soundly based and consistent with Council policy.

3.30. The Council has a procedure for handling complaints, compliments, and comments that monitors formal contact with members of the public. Complaints are actively tracked through the process and independently reviewed.

3.31. The Council ensures compliance with established policies, procedures, laws, and regulations - including risk management. For transparency, all reports to Cabinet, Cabinet Members and Districts are required to include governance information relating to: Council Policy, internal and external consultation, financial and legal implications and Public Sector Equalities Duty. All reports are required to be cleared by senior finance and legal officers.

3.32. Risk management continues to be embedded within the Council. The diagram overleaf illustrates how risk is managed:



3.33. The Risk Management Policy, Strategy and Methodology 2016 have been placed on the Council's website, and advice and support is provided as requested. Updated information regarding the management of the risks within the Council's Corporate Risk Register continues to be reported three times a year to the Audit Committee. Corporate risks are reviewed monthly by the Corporate Leadership Team. In addition business plans at directorate and divisional level include key risks.

3.34. Legal requirements and Council policy, together with guidance on their implementation, are set out in detail in the Policies, Standards, Procedures and Guidance database held on the Council's intranet for financial, Information Communications Technology and business procedures, and People Solutions for Human Resources policies and procedures. Directorates maintain detailed delegations and guidance on specific legislative requirements which affect their service delivery. The Council has a strong Internal Audit function (Birmingham Audit) and well-established protocols for working with External Audit. The Council's external auditors have responsibilities under the Code of Audit Practice to review compliance with policies, procedures, laws and regulations within their remit.

Capacity and Capability

3.35. The financial reductions facing the Council are impacting on workforce capacity. Having a flexible, skilled and mobile workforce will be critical to the Council effectively responding to increasing demand and reducing resources.

3.36. The Council has in place a strategy for facilitating the implementation of the savings proposals including managing significant workforce reductions through redundancy and potentially outsourcing. This includes an organisational design tool kit, training and online tools for managers along with a team of trained HR professionals to support the most complex projects. In addition there are number of work streams focused on continued performance priorities which include the improvement agenda in Children's Services, improving attendance across the Council and ensuring a robust framework for terms and conditions and pay are in place to eradicate any potential for further equal pay risks.

3.37. The Future Council sub programme, Forward: The Birmingham Way is working to provide a framework that will support the workforce to be the right people doing the right things in the right way.

3.38. In addition to the Members Development Programme, Councillors have access to e-learning through the Members portal on People Solutions and regularly kept up to date on training and development via the City Councillor bulletin circulated by e-mail. This gives detail of legislation, training opportunities and other issues of importance to Members. Regular monthly 'market places' and briefing sessions are held to keep Councillors up-to-date with Council Services or services provided by Partner Organisations. Group Offices encourage consideration, planning and undertaking of development and learning to become an effective and efficient elected representative.

3.39. The members' development programme in 2015/16 was delivered around four areas as outlined in the table below:

New Member Induction	On-going Member Development
Aim: To give oversight of council processes and procedures to enable new members to get quickly up to speed with their role	**Aim: to provide ongoing development opportunities for members related to current and potential future role and responsibilities**
• Understand role and responsibilities, the Council's values & behaviours, define new development offer	• Skill development (e.g. running surgeries, media training and dealing with conflict) ; networks and external visits
• Managing casework, code of conduct and the constitution	• A survey poll of all members for targeted training
• Who's who in Birmingham, customer intelligence and access to IT and council services	• Community leadership development (i.e. place shaping, partnership, civic and civil)
• 1-2-1's	• Future roles and responsibilities - progressing to Chair/Vice Chair/Cabinet; how member roles are changing
Scrutiny, District & Deputy Chairs	Member/Officer Relationship
Aim: To develop good community governance with effective and positive scrutiny	Aim: members and officers share understanding about their roles and responsibilities and how they work together
• Understand the new constitution, roles and responsibilities and what it means in practice	Member & Officers – redefined roles & expectations, supported by development programme
• Future District Delivering Differently programme overview and how to implement locally	• Underpinning behavioural standards, the new constitution and community governance with outward place focus
• Joint session with Scrutiny and District Chairs/Vice Chairs on new ways of working together	

3.40. During 2015/16, the 'My Appraisal' review process for all staff was introduced. This streamlined the personal review process and enabled a consistent means of assessing and rewarding performance. 'My Appraisal' is specifically designed to ensure that employees are supported to implement the Council's core values:

- We put citizens first
- We are true to our word
- We act courageously
- We achieve excellence

Engagement with the community and other stakeholders

3.41. The Council engages in a wide range of consultation and engagement activities to inform service delivery and decision making. These are summarised in an annual statement and on-line consultation database. The Council Business Plan 2016+ consultation process included public meetings led by the Council's Leader and Cabinet, consultation via online webcast question and answer sessions with Cabinet Members, consultation via post, mail, text and through the City's website, consultation with business representatives, young people and focus groups from Birmingham's People's panel and meetings with staff and Trade Unions.

3.42. The Council's Scrutiny function regularly engages with key partners and other interested groups and individuals in order to assess the impact and suitability of the Council's activity. The Scrutiny Committees make an annual report to Full Council.

3.43. The Customer First programme and Communications Review ensures that clear channels of communication are in place with service users, citizens and stakeholders. The Council holds meetings in public wherever possible. Directorates have extensive programmes of consultation and engagement activity for specific services.

4. Review of effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the CLT within the Council who have responsibility for the development and maintenance of the governance environment, Birmingham Audit's annual report, and also by comments made by the external auditors, Birmingham's Independent Improvement Panel and other review agencies and inspectorates.

4.2. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/Solace framework, 'Delivering Good Governance in Local Government' and continues to learn from experiences and makes necessary changes to improve its local code of governance. The Council's review process uses the Key Roles and Core Principles included in this guidance and this Statement sets out how the Council meets these roles and principles in its control and governance arrangements.

4.3. The Council has a well-developed methodology for annual governance review which is reviewed and updated each year. During 2015/16 a fundamental review to both strengthen and streamline the process was undertaken. The process requires each Directorate and significant areas of service delivery / business units within a directorate to produce an Assurance Statement highlighting significant governance issues, and details of what action(s) are being taken to mitigate any risks.

4.4. The Council's review of the effectiveness of the system of internal control is informed by:

- Directorate assurance based on management information, performance information, officer assurance statements and Scrutiny reports;
- the work undertaken by Birmingham Audit during the year;
- the work undertaken by the external auditor reported in their annual audit and inspection letter; and
- other work undertaken by independent inspection bodies.

4.5. The arrangements for the provision of internal audit are contained within the Council's Financial Regulations which are included within the Constitution.

The Strategic Director of Finance and Legal is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the Public Sector Internal Audit Standards.

4.6. As in previous years the Birmingham Audit plan was compiled using professional judgement and a risking model to 'score' all potential 'auditable' areas. To meet the standards required there was a need to ensure sufficient coverage of the adequacy and effectiveness of systems of internal control in relation to financial control, risk management, corporate governance and an element for proactive and reactive fraud work.

4.7. The resulting work plan is discussed and agreed with the Strategic Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. Birmingham Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any identified weaknesses and include a risk rating for the City Council and the Service Area. These are submitted to Members, Strategic Directors and service managers as appropriate.

4.8. From the work undertaken by Birmingham Audit in 2015/16 and the outcomes from applying the model for formulating the end of year opinion the following assurance was able to be given: "I am able to provide reasonable assurance." In this context 'reasonable assurance' means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts. As in any large organisation, Internal Audit did identify a number of concerns that required remedial action and these were reported to the appropriate Strategic Director or Senior Manager during the year. All significant issues have also been brought to the attention of the Audit Committee, and where appropriate to EMCB. The more significant of these are set out in the section entitled '**Significant governance issues 2015/16'** below.

4.9. The internal audit function is monitored and reviewed regularly by the Audit Committee. The Committee also reviews management progress against issues raised in the AGS and in implementing recommendations made in significant, high risk audit reports.

4.10. The Council's Corporate Resources Overview and Scrutiny Committee received reports on key control issues throughout 2015/16 including budgetary monitoring, risk issues including responding fully to the Kerslake Review recommendations and implementing the Future Council Programme and direct reports from The Deputy Leader.

4.11. The Council Plan is monitored through the Council Business Plan Measures on a quarterly basis both by the Executive and Overview and Scrutiny

Committees. Directorate, Divisional, and Service unit business plans contain a variety of performance indicators and targets, which are regularly reviewed.

4.12. The Monitoring Officer advises that there were 136 whistleblowing complaints in the 2015/16 financial year. On 12th January 2015, a revised whistleblowing policy was implemented and members of the public as well as staff may now use the procedure. This has resulted in a greater number of complaints. Each complaint is reviewed and investigated where appropriate.

5. **Review of 2014/15 governance issues**

5.1. During 2015/16, the significant 2014/15 governance issues were considered by Audit Committee in June, with updates in November 2015 and March 2016. In addition, this Committee received reports relating to the Corporate Risk Register, Final Accounts, Financial Resilience and Equal Pay.

5.2. Children's Safeguarding issues were considered by Cabinet and the Education and Vulnerable Children O&S Scrutiny Committee. The Educational and Vulnerable Children O&S Committee also considered issues originally raised within Lord Warner's Report and governance in schools.

5.3. Monthly Revenue Budget Monitoring reports and quarterly Capital Budget Monitoring reports were considered by Cabinet.

5.4. The Council worked closely with the BIIP to formulate and implement action plans in response to the Kerslake review. Work continues to embed the processes into 2016/17 and beyond.

6. **Significant governance issues 2015/16**

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

Issue No	Governance Issue	Mitigation Action / Proposed Action
1	**Safeguarding Children** Safeguarding children remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2016/17 and future years.	The Council has launched an operating model which sets out the vision, values, direction and shape of the service. A Practice Evaluation Programme has been introduced. A clear performance framework that provides challenge and accountability

Issue No	Governance Issue	Mitigation Action / Proposed Action
	The Care Act 2014 sets out the legal requirements for adult safeguarding.	at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.
2	**Financial Resilience** The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years. Given the Council is in the sixth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high. The risk of failure to deliver the necessary actions to achieve savings requires close monitoring.	Service Reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. By focussing on its Future Council 2020 vision, the Council has agreed its 2016/17 budget and a multi-year financial strategy to deliver the vision. Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.
3	**Equal Pay Claims** The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for the external auditors and increasing	The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed

Issue No	Governance Issue	Mitigation Action / Proposed Action
	demands to evidence Going Concern.	analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.
4	**Governance Arrangements** From the review of governance arrangements made by Lord Kerslake and following the BIIP's review, work on the Future Council Programme continues. This includes: • Clear values, purpose and vision for the future Council, along with its future operating model; • A medium term outcomes-driven council and financial plan to take the Council to 2020/21; • Strategic alignment of outcomes, resources, policy-making, service delivery, governance and roles and responsibilities; and • Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.	Develop the Future Council Programme to: • Define the vision for the Council. • Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model. • Create an agile and adaptive organisation. • Deliver the actions set out in the Organisation Improvement Plan, developed in response to the Kerslake review and BIIP. • Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.

<table>
<tr><th>Issue No</th><th>Governance Issue</th><th>Mitigation Action / Proposed Action</th></tr>
<tr><td>5</td><td><u>Partnership Working</u>

The Council is seeking ways to improve effective partnership working, such as working with neighbouring authorities through establishing the combined authority and taking forward the devolution deal.

The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs.

Options may include:

• Using or considering alternative delivery vehicles.

• Outsourcing of services.

• Commissioning services.</td><td>The partnership with neighbouring authorities and the devolution deal the Council signed with the Chancellor of the Exchequer in November 2015 are major steps forward for Birmingham and the West Midlands. The Council must continue to work closely together through the next vital stages as it establishes the Combined Authority and begins to implement devolution - making sure that work leads to permanent benefits for the region.

The Future Council Sub programme Outward Looking Partnerships is reviewing the way the Council works with its partners - working equally to a common shared purpose.

Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.</td></tr>
<tr><td>6</td><td><u>Organisational Changes</u>

The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies.

These organisational changes can impact on the productivity and efficiency of the organisation through the loss of experienced staff; impacts on the morale of the workforce, with the potential negative consequences on employee relations and increased the potential for industrial action.</td><td>Through the Future Council Programme: Forward the Birmingham Way, a new employee engagement programme is focused on redefining organisational and employee expectations and requirements.

In the forthcoming year the significant budget reductions including the proposals for the new workforce contract may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.</td></tr>
</table>

6.2. These matters are monitored through the Corporate Risk Register, CLT and Directorate Service and operational plans as required. During the year the Audit Committee monitors progress against the issues identified in this statement.

6.3. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed ………………………………	Signed …………………………..
Councillor John Clancy	Mark Rogers
Leader of the Council	Chief Executive
	(& Head of Paid Service)

Signed ………………………………	Signed ………………………..
Jon Warlow	Kate Charlton
Strategic Director - Finance and Legal	Acting City Solicitor
(& Chief Finance Officer)	(& Monitoring Officer)

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

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

The Section 151 Officer's Responsibilities

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

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

The Section 151 Officer has also:

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

Certification of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of Birmingham City Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.

. . . .

Jon Warlow, Strategic Director – Finance & Legal
29 September 2016

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 12 September 2016. Under my delegated authority I have approved subsequent adjustments to the Statement of Accounts which have no impact on the Council's usable reserves as at 31 March 2016.

. . . .

Councillor Tristan Chatfield, Chair of Audit Committee
29 September 2016

Glossary

Academy School
A school that chooses to opt out of Local Authority control and receive its funding direct from the Education Funding Agency.

Accruals
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Amortised Cost
Some financial assets and liabilities are carried at amortised cost, where part of their carrying amount in the balance sheet will be either written down or written up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

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

Balances
The total level of funds an authority has accumulated over the years, available to support expenditure within the year.

Beacon Properties
In valuing the Housing Stock the Council's properties are grouped into similar types and a sample from each type, known as beacon properties, are valued with the results being multiplied up to give a total value for each type.

Capital Charge
A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

Capital Expenditure
Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains, the value of an existing fixed asset.

Capital Receipt
Money received from the disposal of land and other non-current assets, and from the repayment of grants and loans made by the Council.

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as being from operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is borrowing) to the Council.

CIPFA/SOLACE
The CIPFA/SOLACE Framework helps local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of public business.

Collection Fund
A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of National Non-Domestic Rates (NNDR) collected.

Community Assets
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Comprehensive Income and Expenditure Statement (CIES)
This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, but for which payment has not been made by the end of the year.

Current Value
Current value is a measurement base which reflects the economic environment prevailing for the service or function that an asset supports when valuing the asset. The current value measurement bases include Existing Use Value, Depreciated Replacement Cost and Fair Value (see below)

Debtors
Sums of money owed to the Council for work done, goods received, services rendered or taxation due but not received by the end of the year.

Deferred Capital Receipts
These represent income that is still due following disposal of a non-current asset.

Defined Benefit Pension Scheme
Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

Defined Contribution Pension Scheme
Pension schemes or other retirement benefit schemes in which the employer pays regular fixed contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciated Replacement Cost
This is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and obsolescence.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non-current asset.

Earmarked Reserve
A sum set aside for a specific purpose.

Effective Interest Rate
The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Emoluments
Payments received in cash and benefits for employment.

Events After the Reporting Period
Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the Responsible Financial Officer.

Existing Use Value
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Fair Value
Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fees and Charges
Income arising from the provision of services, for example, the use of leisure facilities.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

General Fund
The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and NNDR.

Government Grants
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to a local authority, in return for past or future compliance with certain conditions relating to the activities of that local authority.

Heritage Assets
Assets that the council intends to hold for the purpose of informing or educating the public about their heritage, and which are not held for their investment value. Examples include collections of antiques in museums.

Housing Revenue Account (HRA)
A separate account detailing the expenditure and income arising from the provision of council housing.

Impairment
A diminution in value of a fixed asset resulting from, for example, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

Infrastructure Assets
These are inalienable assets, the value of which is recognised only by continued use of the asset created. Examples of such assets are highways and footpaths.

Intangible Assets
An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity.

Investment Properties
Interest in land and/or buildings in respect of which construction work and development have been completed, or which is held for its investment potential with rental income being negotiated at arm’s length.

Investments
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor’s ability to dispose of the investment.

Lender Option Borrower Option (LOBO)
A LOBO is a type of loan instrument where borrowing is undertaken, initially at a fixed rate of interest. Periodically, at specific points, the lender has the option to alter the interest rate charged. Should the lender exercise the option to alter the interest rate, the borrower then has the option to continue with the loan instrument at the new rate or alternatively to terminate the agreement and pay back the sum borrowed with no other penalty.

Liabilities
Amounts due to individuals or organisations, at the balance sheet date, which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

Market Value
The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Materiality
An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)
Minimum Revenue Provision is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements. The Council is required by law to make an annual determination of MRP that it considers to be prudent.

Movement in Reserves Statement (MiRS)
This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (that is, those that can be applied to fund expenditure or reduce local taxation) and other reserves.

National Non-Domestic Rates (NNDR)
Rates that are levied on business properties.

Net Book Value
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Operating Lease
A lease other than a finance lease.

Operational Assets
Non-current assets held, occupied, used or consumed in the direct delivery of services for which the Council has a statutory duty or discretionary power to provide.

Precept
Amounts levied on the Council by other councils or public bodies (Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils), that cannot directly raise council tax themselves.

Prior Period Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)
A Government initiative which enables authorities to carry out capital projects through partnership with the private sector.

Property, Plant and Equipment
Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

Provisions
Contributions to provisions are amounts charged to the revenue account during the year for costs, resulting from a past event and with uncertain timing of payment and where a reliable estimate of the cost involved can be made.

Related Parties
There is a detailed definition of related parties in FRS8, *Related Party Disclosures*. For the Council's purposes, related parties are deemed to include the elected Members of the Council and their partners; the Chief Officers of the Council and the companies in which the Council has an interest.

Reserves
Reserves are reported in two categories.

<u>Usable Reserves</u>
Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

<u>Unusable Reserves</u>
Unusable reserves are reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Revenue Expenditure
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

Revenue Expenditure Funded from Capital under Statute (REFCUS)
Expenditure incurred during the year that is treated as capital expenditure under statutory provision but does not result in a non-current asset owned by the Council. Examples of these are expenditure on items such as improvement grants.

Revenue Support Grant (RSG)
A grant from Central Government towards the cost of providing services.

Soft Loan
Loans at nil or below prevailing interest rates are often referred to as soft loans.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BIRMINGHAM CITY COUNCIL

We have audited the financial statements of Birmingham City Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Strategic Director, Finance and Legal and auditor

As explained more fully in the Statement of Responsibilities for the Financial Statements, the Strategic Director, Finance and Legal is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director, Finance and Legal; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Reports, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

Financial planning arrangements

The Authority's 2015/16 budget included the requirement to deliver £110.3 million of recurrent savings. During 2015/16 the Authority also updated its Long Term Financial Plan and Efficiency Statement for the period 2016/17 - 2025/26, which includes the requirement to deliver a further £88.3 million of recurrent savings in 2016/17.

The planned delivery of savings is not being achieved and there were weaknesses in the delivery of recurrent savings in 2015/16, resulting in £34.8 million of the savings being non-recurrent. The largest savings plan relates to health and social care service redesign and Better Care Fund funding, which was planned to deliver £60 million of savings over the three years to 2018/19. This plan assumed that in 2016/17 £28 million of funding would be released by Government and Health partners to support the Authority in this service redesign. This funding has not yet been secured and there is uncertainty about whether any of it will be received in 2016/17 and how much will be received in future years. The Authority has yet to fully secure alternative savings actions to replace this plan for 2016/17.

This matter is evidence of weaknesses in the adequacy of financial planning to support sustainable resource deployment.

Managing risks effectively and organising and developing the workforce

In May 2014 the Office for Standards in Education (Ofsted) issued a report on its inspection of services for children in need of help and protection, children looked after and care leavers in Birmingham. It assessed the services as inadequate and identified a number of serious weaknesses in the Authority's arrangements for looking after vulnerable children and young people.

In July 2014 significant failings in the Authority's management of schools were identified in a review by Peter Clarke in July 2014. Since this review the Authority has taken and continues to take action to improve its management of schools through the implementation of its improvement plan.

However, an Ofsted monitoring visit in June 2016 identified 13 areas of underperformance, where they stated that arrangements were not yet adequate. The issues identified included:

- a lack of consistent improvement;
- failure of senior management to promptly and effectively implement change;
- failure to ensure children are always kept safe and not doing enough to protect children from potential harm;
- significant numbers of children missing from education; and
- weak strategic leadership of safeguarding children in schools that lacks sufficient rigour.

This report highlights that, to date, the Authority's response to the Ofsted inspection in May 2014 and to the review of management of schools in July 2014 are not sufficient. The actions agreed in response to the issues identified and the recommendations made in the initial reports had not been fully implemented by 31 March 2016.

These matters are evidence of weaknesses in arrangements to manage risks effectively and maintain a sound system of internal control, demonstrating and applying the principles and values of good governance, to support informed decision making and planning. They are also evidence of weaknesses in organising and developing the workforce effectively to deliver strategic priorities to support strategic resource deployment.

Governance arrangements

The Secretary of State for Communities and Local Government appointed an Improvement Panel in January 2015 to oversee improvements in the governance of the Authority. The Panel was fully engaged with the Authority throughout 2015/16.

During 2015/16 the Panel wrote to the Secretary of State on four occasions summarising the Authority's progress and the issues the Panel was concerned about. This included the slow progress the Authority was making in three key areas:

- developing a City Partnership and an agreed vision for the City;
- developing the Authority's long term financial strategy; and
- securing senior management capability.

Since April 2016 the Panel, with the agreement of the Secretary of State, has stood back to enable the Authority to implement the actions in its gap analysis. However, the Panel continues to be engaged to monitor progress with addressing the governance failings previously identified.

This matter is evidence of significant failings in governance arrangements to support informed decision making.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, except for the effects of the matters described in the Basis for qualified conclusion paragraph, we are satisfied that, in all significant respects, the Authority put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Phil Jones

Phil Jones
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

30th September 2016

The Audit Findings
for Birmingham City Council - Addendum

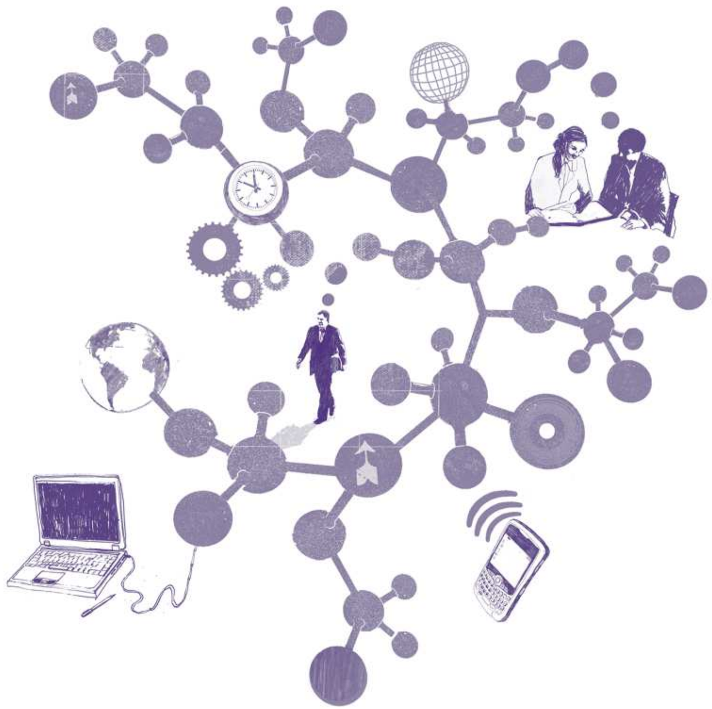
Year ended 31 March 2016

September 2016

Phil W Jones
Director
T +44 (0) 121 232 5437
E phil.w.jones@uk.gt.com

Richard Percival
Associate Director
T 0121 232 5434
E richard.d.percival@uk.gt.com

Lorraine Noak
Manager
T 0121 232 5407
E lorraine.noak@uk.gt.com



Purpose of this addendum

This addendum provides the Chairman and Members of the Audit Committee with a briefing of the accounting issue and adjustment to the Statement of Accounts that has arisen since we presented our Audit Findings Reports to the Audit Committee of 12 September 2016.

The issue

The Council established NEC Developments PLC (NECD) a wholly owned subsidiary in 1997 to raise finance to construct Halls 17 -20 at the NEC. The company raised capital through a bond issue of £73 million which was supported by a guarantee from the Council. The Council sold NEC Ltd (NECL) on 1 May 2015. As part of this transactions the assets of NECD were transferred to NECL prior to the sale.

In previous years the Council's guarantee of the loan stock had been disclosed in the financial statements as a contingent liability. As part of the reorganisation of NECD the Council agreed a direct obligation to pay principal and interest on the loan stock to the note holders. This meant that this obligation needed to be recognised as a liability in the Council's accounts.

Due to the complexity of the sale transaction the Council sought accounting advice which included accounting for the £73 million loan stock obligation. The accounting treatment adopted for this liability resulted in an investment asset of £67 million being recognised on the Council's balance sheet as well as the liability.

We sought clarification of two issues in relation to the £67 million asset:

- why the £67 million asset had not been impaired, as it appeared to have limited realisable value; and
- whether the Council was satisfied that the assertion that the asset was capital expenditure within the definitions of the Capital Finance Regulations was appropriate.

Impact on the Financial Statements

Following our discussion of this issue with the Strategic Director of Finance and Legal we agreed that:

- the financial statements should be restated to impair the £67 million asset; and
- the Council's view, having taken external financial and legal advice, that the asset was within the scope of the Capital Finance Regulations was sufficient to support the assertion that this accounting adjustment is not a charge to the General Fund.

It should be noted that these changes do not have any impact on the Council's General Fund reserves as at 31 March 2016, or on the Council's continuing obligation with respect to the £73 million loan debt.

The overall impact on the financial statements is summarised on the following pages.

Impact on the Audit Opinion

We reported to Audit Committee on 12 September 2016 our intention to provide an unqualified audit opinion in respect of the financial statements. We still intend to provide an unqualified financial statements opinion following the approval of the amended financial statements.

Communication with Those Charged with Governance

The Chairman of the Council's Audit Committee has delegated authority to act on behalf of the committee. We discussed the contents of this addendum with him on 29 September 2016

Adjusted misstatement

Impact of adjusted misstatements

The adjusted misstatement is set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £m	Balance Sheet £m	Impact on total net expenditure £m
Long term investments		(66.3)	
Continuing operations – culture and related services	66.3		66.3
Unusable reserves – capital financing reserve		66.3	
Overall impact on single entity accounts	£66.3	Nil	£66.3
Impact on usable reserves	Nil	Nil	Nil

Disclosure changes

The table below provides details of the disclosure changes which have been made in the final set of financial statements.

	Adjustment Type	Issue
1.	Disclosure	Narrative report 5.3 Comprehensive Income and Expenditure Statement – restatement of increase 5.4 Balance Sheet – restatement of reduction in net liability 7.8 Reserves – restatement of unusable reserves
2	Disclosure	Note 3 Critical Judgements in Applying Accounting Policies Sale of the NEC – restated to include the judgement that the investment in NECD is within the scope of the Capital Finance Regulations.
3	Disclosure	Note 6 Adjustments Between Accounting Basis and Funding Basis Under Regualations Restatement of adjustments to General Fund to mitigate the impact of the impairment transaction
4	Disclosure	Note 9 Unusable Reserves Capital Adjustment Account – restatement to include the impairment transaction
5	Disclosure	Note 12 Material Items of Income and Expense and Acquired Operations Addition of a paragraph explaining that the NECD investment has been impaired and charged to the CIES.
6	Disclosure	Note 24 Long Term Investments Investments in subsidiary companies restated from £92.7 million to £26.4 million.
7	Disclosure	Note 39 Financial Instruments Categories of financial instruments – restatement of 'investments that are not financial instruments'
8	Disclosure	Group accounts narrative report 5.3 and 5.5 – restatement of entity deficit, assets and liabilites
9	Disclosure	Group accounts note G13 and G14 Restatement of Profit and Loss Reserve from £144.2 million to £77.9 million.

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**Audit Committee**
Report of:	**Acting Assistant Director, Audit & Risk Management**
Date of Meeting:	**22nd November 2016**
Subject:	**Corporate Risk Register Update**

Wards Affected: **All**

1. Purpose of Report

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

2. Recommendations

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

- Risk 8 - Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.

2.2 That the Audit Committee approves the deletion of one risk:

- Risk 23 - Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs).

This is because there continues to be improvement in responding to Subject Access Requests; and the Information Commissioner's Office is happy with the progress being made and are no longer monitoring the Council.

2.3 That the Audit Committee approves the new risks:

- Risk 27 - Risk of claims for payback of search fees charged by the Council.
- Risk 28 - Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.

2.4 That the Audit Committee approves splitting Risk 10 to have a separate risk relating to setting / balancing the budget, ie: Risk 29 - Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.

3. Background Information

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

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

- providing independent assurance to the Council on the effectiveness of the risk management framework and the associated control environment,
- whether there is an appropriate culture of risk management and related control throughout the Council,
- to review and advise the Executive on the embedding and maintenance of an effective system of corporate governance including internal control and risk management; and
- to give an assurance to the Council that there is a sufficient and systematic review of the corporate governance, internal control and risk management arrangements within the Council.

4. Corporate Risk Register Update

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

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

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

4.4 The CRR is attached as Appendix A.

5. Embedding Risk Management

5.1 The current main route to provide risk management awareness is the e-learning package for managers, accessed via the internet.

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

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

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

6. Legal and Resource Implications

6.1 The work carried out is within approved budgets.

7. Risk Management & Equality Impact Assessment Issues

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

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

8. Compliance Issues

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

…………………………………..
Acting Assistant Director, Audit & Risk Management

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

BCC Risk Map - November 2016

Likelihood:

Likelihood \ Impact	Low	Medium	Significant	High
High			Alternative funding for schools PFI contracts / maintenance of schools estate (R3); Highways PFI - Core Investment deliverables (R6); Employee relations / sickness absence levels (R7)	Defend / settle post 2008 equal pay claims (R1); Not responding to improvement agenda / improving childrens safeguarding (R2); Compliance re Counter Terrorism & Security Act and Prevent Duty (R26); Claims re Pay Back of Search Fees(R27); STP not alleviating the financial position of social care (R28)
Significant		Not divesting of property assets (R15); Malicious attacks on web based services (R16); Ineffective Corporate Risk Marker IT solution (R17)		Defend / settle pre 2008 equal pay claims (R4); Further equal pay claims (R5); Failure to deliver actions & implement savings programme (R13b); Pensions Deficit - increase in employer contributions (R24)
Medium		Evaluation of service deliver options (R18); Delivery of Localisation Agenda (R19); Unpaid allowances (R20)	Younger Peoples Re-Provision Programme (R8); Responding to Kerslake Report (R10); Compliance to Equality Act 2010 & PSED (R12); Not planning appropriately for ongoing reduction in government grants (R13a); Insufficient IT expertise / lack of control of non-core IT spend (R14); Setting / containing net spending within balanced budget (R29)	Responding to school governance concerns (R9); Loss of personal / sensitive data (R11); Compliance to timescales for DoLS referrals (R25)
Low		Action / fines by the ICO (R23)	Fines from HMRC (R22)	

Impact

Key:

Severe — Immediate control improvement to be made to enable business goals to be met and service delivery maintained / improved.

Material — Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained.

Tolerable — Regular review, low cost control improvements sought if possible.

Index by Risk / Issue Number

Corporate Risk Register Update for Audit Committee November 2016

	INDEX OF RISKS / ISSUES (in order of severity of risk)									
Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact Nov 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee			Page No.
							July 2016	March 2016	Nov 2015	
1	1	1c	Defend and / or settle post 2008 equal pay claims.	Strategic Director, Finance &Legal	Actual: H/H Target: M/S	Same	H/H	H/H	H/H	10
2	2	23 & 61	Not responding fully and effectively to the improvement agenda for children - Failure to improve children's safeguarding and children's social care.	Strategic Director, People Directorate	Actual: H/H Target: M/H	Same	H/H	H/H	H/H	10
3	26	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty.	Strategic Director Place Directorate	Actual: H/H Target: M/S	Same	H/H			12
4	27	N/A	Risk of claims for payback of search fees charged by the Council.	Strategic Director, Economy	Actual: H/H Target: H/S	N/A				13
5	28	N/A	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care.	Strategic Director, People Directorate	Actual: H/H Target: H/H	N/A				14
6	4	1a	Defend and settle pre 2008 equal pay claims.	Strategic Director, Finance &Legal	Actual: S/H Target: L/H	Same	S/H	S/H	S/H	14
7	5	1b	Further equal pay claims.	Strategic Director, Finance &Legal	Actual: S/H Target: M/H	Same	S/H	S/H	S/H	15
8	24	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions.	Strategic Director, Finance & Legal	Actual: S/H Target: M/M	Same	S/H			15
9	3	14b / 50	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability for essential management of the LA schools estate.	Strategic Director, Finance &Legal	Actual: H/S Target: M/S	Same	H/S	H/H	H/H	16

Corporate Risk Register Update for Audit Committee November 2016

Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact Nov 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee July 2016	March 2016	Nov 2015	Page No.
	INDEX OF RISKS / ISSUES (in order of severity of risk)									
10	6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case (Highways).	Strategic Director, Economy	Actual: H/S Target: L/S	Same	H/S	H/S	H/S	17
11	7	30	Lack of capacity and capability to respond to employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes.	Strategic Director, Change & Support Services	Actual: H/S Target: L/M	Same	H/S	H/S	M/S	18
12	9	57	Not responding fully and effectively to the issues from recent reviews concerning school governance and related matters.	Strategic Director, People Directorate	Actual: M/H Target L/H	Same	M/H	M/H	S/H	18
13	11	45	The loss of significant personal or other sensitive data.	Strategic Director, Major Projects	Actual: M/H Target: L/H	Same	M/H	M/H	M/H	20
14	25	N/A	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council.	Strategic Director, People Directorate	Actual: M/H Target: M/S	Same	M/H			20
15	8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme.	Strategic Director, People Directorate	Actual: M/S Target: M/S	Reduced	S/S	S/S	S/S	22
16	10	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme.	Chief Executive	Actual: M/S Target: L/H	Same	M/S	M/H	M/H	23

Corporate Risk Register Update for Audit Committee November 2016

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

Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact Nov 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee July 2016	March 2016	Nov 2015	Page No.
17	29	NA	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget.	Strategic Director, Finance & Legal	Actual: M/S Target: L/H	N/A				24
18	12	2	Failure to comply with all the requirements of the Equality Act 2012 and the Public Sector Equality Duty.	Strategic Director, Place Directorate	Actual: M/S Target: M/S	Same	M/S	M/S	M/S	25
19	13	28	a) Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources and avoid legal challenge. b) Failure to deliver the necessary actions to implement the savings programme.	Strategic Director, Finance & Legal	Actual: M/S Target: L/L (ratings relates to (a))	Same	M/S	M/S	M/S	27
20	14	52	Insufficient in-house IT expertise within Directorates and inadequate or ineffective corporate control of non-core IT spending.	Strategic Director, Change & Support Services	Actual: M/S Target: L/S	Same	M/S	M/S	M/S	28
21	15	32	Not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery.	Strategic Director, Major Projects	Actual: S/M Target: M/L	Same	S/M	S/M	S/M	29
22	16	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services.	Strategic Director, Change & Support Services	Actual: S/M Target: L/M	Same	S/M	S/M	S/M	30
23	17	55	Ineffective Corporate Risk Marker IT solution.	Strategic Director, Change & Support Services	Actual: S/M Target: L/M	Same	S/M	S/M	S/M	31

APPENDIX A

Corporate Risk Register Update for Audit Committee November 2016

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

Ranking	New Ref No.	Old Ref No.	Short Description	Lead Director	Actual Risk rating and Target rating Likelihood / Impact Nov 2016	Change in residual risk	Actual risk level in previous 3 updates to Audit Committee			Page No.
							July 2016	March 2016	Nov 2015	
24	18	37	Failure to adequately evaluate the costs and benefits of alternative delivery models. Failure to fully implement the decisions made to change policy and service delivery.	Strategic Director, Change & Support Services	Actual: M/M Target: M/M	Same	M/M	M/M	M/M	31
25	19	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's improvement Plan and Leaders Policy Statement.	Strategic Director, Place Directorate	Actual: M/M Target: L/M	Same	M/M	M/M	M/M	32
26	20	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements.	Strategic Director, Change & Support Services	Actual: M/M Target: M/M	Same	M/M	M/M	M/M	33
27	22	54	Risk of fines from HMRC for Directorates employing long–term consultants.	Strategic Director Change & Support Services	Actual: L/S Target: L/M	Same	L/S	L/S	L/S	34
28	23	59	Risk of enforcement action and fines by the ICO for failure to comply with the 40 day timescale for responding to SARs.	Strategic Director, Major Projects	Actual: L/M Target: L/L	Same	L/M	L/M	H/H	35

Corporate Risk Register Update for Audit Committee November 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
1	1c	Failure to successfully defend and / or settle post 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	High / High	Lead Director comment A significant number of claims have been issued. A proportion of these have already been settled or are in the process of settlement. A growing proportion are now progressing through the tribunal and civil court process. No win / no fee solicitors are still canvassing for claimants. The validity of claims is constantly challenged by Legal Services. Each claim is subject to robust legal challenge. Settlement of claims is subject to financial provision and establishing validity of claims.	Target risk rating: Medium / Significant Anticipated date of attainment of the target risk rating: March 2018. Source(s) of assurance regarding progress with mitigating the risk: Management assurance - regular separate reporting to Corporate Governance Group, EMCB and the Audit Committee. External & internal audit review.	O&S - The subject of equal pay claims has been discussed at meetings of the Corporate Resources O&S Committee and former Governance, Resources and Customer Services, but only in general terms during items relating to the Council's budget and Annual Audit Letter. IA - Payroll review work undertaken annually.
2	23 & 61	Not responding fully and effectively to the improvement agenda for Children - Failure to improve children's safeguarding and children's social care. Lead: Strategic Director, People Directorate Owner: Alastair Gibbons	High / High	Lead Director comment A new Commissioner for Children's Care was appointed in December 2015. He is working with the Council to oversee continued implementation of the improvement plan, already agreed with the DfE and support for the potential development of a Children's Trust. There is now greater clarity about resources and priorities going forward, including a sustainable 4 year financial plan and a stable operational model was fully in place in February 2016. We have worked with partners in the Early Help & Safeguarding Partnership to redesign the front door for early help and social work contacts and referrals to improve referral-taking, advice, screening and decision-making. CASS (child advice and support service is the way into family support and social work services including MASH and child protection, and is in place from September 2016). BCC were inspected by Ofsted during September / October 2016. Their report is due at the end of November 2016.	Target risk rating: Medium / High Anticipated date of attainment of the target risk rating: April 2017. Source(s) of assurance regarding progress with mitigating the risk: Management assurance, Peer review, Ofsted visits, Scrutiny Committee monitoring, and Children's Commissioner fortnightly. Quartet Board Meetings (Children's Improvement Programme Board); Essex improvement support. The refreshed improvement plan, with the necessary investment is being delivered. There is still much to do, (for example, about the capacity of HR corporate resources, a credible recruitment and retention strategy) to ensure the quality of practice and its timeliness. A proposed new model for the LSCB is being discussed with partners and a new chair has been appointed to the LSCB. Cabinet approval has been given to the	O&S - Education & Vulnerable Children O&S Committee: • Completed the Scrutiny Inquiry: Children Missing from Home and Care (presented to Council in Jan 2016). Also discussed children missing from education and the safeguarding issues at the Jan 2016 and October 2016 meetings. • Discussed the Children's Social Care and Safeguarding Improvement Plan at the June 2015 meeting. Members had an informal meeting in October 2015 to discuss the

Corporate Risk Register Update for Audit Committee November 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
				Improvement priorities until April 2017 with necessary investment are in place and are being progressed.	replacement of the CareFirst case system so that practitioners are freed up to undertake direct social work practice. An Ofsted monitoring visit in June highlighted the front door and assessment services, and the children with disability service as areas for continuing attention. As a proposed move to a Children's Trust, Cabinet will be asked to agree one or more alternative delivery models for design work between October 2016 and March 2017.	improvement plan in more detail, and an update at the July 2016 meeting. Progress towards the voluntary children's trust was discussed at the Sept 2016 meeting. Held meetings with the Exec Director for Children's Services, Chief Social Worker, adoption and fostering team and Lifford Lane Social work teams. IA Reviews 2014/15: Corporate Parenting, MASH, Section 11 Safeguarding Return, Excluded Pupils, Child Protection Plans, Quality of Children in Need Plans and CareFirst IT. IA Reviews 2015/16: Integrated Support Plans, S175 Safeguarding Return, Personal Education Plans, Strategy for Supporting Carers, Effective Home Education, Safeguarding Disclosure & Barring Checks and Multi Agency Safeguarding Hub. IA Reviews 2016/17: Child Protection Case

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						Conference - Engagement, Dealing with Excluded Pupils, Children Missing From Education, Effective Social Working with Families, Carefirst and Sexual Health Contract - Identification of Child Sexual Exploitation, Personal Education Plans F/Up.
26	N/A	Failure to comply with all of the requirements of the Counter Terrorism and Security Act (2015) and the Prevent Duty. Lead: Strategic Director, Place Directorate Owner: Jacqui Kennedy	High / High	Lead Director comment The threat and vulnerability risk assessment of a terrorist attack in the UK places Birmingham as the most vulnerable city after London. In 2015 the Council and partners reviewed its infrastructure around this risk to take into account the Counter-Terrorism and Security Act 2015, that includes a duty on certain bodies ('specified authorities' listed in Schedule 6 to the Act), in the exercise of their functions to have 'due regard to the need to prevent people from being drawn into terrorism'. The duty does not confer new functions on any specified authority. The term 'due regard' means that the authorities should place an appropriate amount of weight on the need to prevent people being drawn into terrorism when they consider all the other factors relevant to how they carry out their usual functions. The Council has applied a partnership and mainstreaming approach to mitigate the risks associated with the threat. Governance for the Prevent programme has been strengthened with the Prevent coordinator now reporting directly to the Strategic Director and Assistant Chief Executive increasing visibility across the Council.	Target risk rating: Medium / Significant Anticipated date of review/attainment of the target risk rating: October 2016. Source(s) of assurance regarding progress with mitigating the risk: Delivery continues to be monitored by the CONTEST Board Chaired by the Deputy Leader. Prevent Delivery Plan in place driven by Counter Terrorism Local Profile (CTLP), monitored by the Prevent Executive Board, chaired by Peter Hay. Consultations undertaken with elected members, District Chairs and communities. 15,000+ front line schools staff have undertaken Workshop to Raise Awareness of Prevent (WRAP) training. Over 600 staff within Adult Safeguarding also trained In WRAP awareness training. 450 trainers have been trained to deliver future WRAP awareness training to schools alleviating capacity issues within the local authority. Support continues to be provided to schools around	O&S - Waqar Ahmed, Prevent Manager reported to Scrutiny on 12th October 2016 alongside Chief Social Worker Tony Stanley to discuss safeguarding arrangements for Prevent. IA Review 2016/17: Work being undertaken during quarters 1&2. Birmingham contributing to the Home Office Audit on national Prevent activity.

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					Prevent via the Schools Resilience Officer. Prevent is embedded within MASH arrangements and within the Right Services, Right Time safeguarding procedures. CHANNEL is in place as a multi-agency pre-criminal space platform to support vulnerable people; and is chaired by the DWP's Think Family Lead. Community initiatives in place commissioned by the Home Officer to provide community solutions and are regarded by the Home Office as national best practice with scaling up plans initiated to extend into other regional areas. BCC Resilience Team continues to lead on the Prepare and Protect strand of the counter-terrorism strategy.	
27	N/A	Risk of claims for payback of search fees charged by the Council. Note: Relates to reimbursement of fees deemed to be in breach of Environmental Information Regulations. Claims for costs can be substantial higher than the search fees. Lead: Strategic Director, Economy Owner: Anne Shaw New Risk	High / High	**Lead Director comment** Current charges are in line with guidance issued by the European Court of Justice; preventing any other grounds for claims beyond 1st April 2016. Charges prior to 1st April 2016 are subject to challenge. If payback is necessary it will impact the Council's budget. The potential liability to the Council is estimated to be in the region of £0.5m.	**Target risk rating:** High / Significant **Anticipated date of attainment of the target risk rating:** March 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Legal Services are being consulted.	

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28	N/A	Risk that in its early stages of delivery the Sustainability Transformation Plan (STP) will not alleviate the financial position of social care. Lead: Chief Executive Owner: Peter Hay New Risk	High / High	**Lead Director comment** To facilitate the STP development, Council resources were utilised. In addition the CEO is the System Leader for this process. Whilst an STP has been submitted, it is very uncertain whether this will deliver against the required financial savings in the short and medium term.	**Target risk rating:** High / High **Anticipated date of attainment of the target risk rating:** N/A **Source(s) of assurance regarding progress with mitigating the risk:** Further controls will be required to mitigate the risk.	
4	1a	Failure to successfully defend and / or settle pre 2008 equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** In 2010, the Tribunal determined that the Council had no defence to pre 2008 equal pay claims (Barker v Birmingham City Council). C12,000 early claims without the involvement of solicitors have been settled including a further cohort as part of settlement agreements reached in 2011 and 2013. Claims issued since January 2015 are now out of time and are not valid claims. The Council is succeeding in striking out these out of time claims. The validity of claims is constantly challenged by Legal Services. Each claim before any offer to settle is made is subject to robust legal challenge. Any offer of settlement is subject to available financial resources.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** March 2018. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review.	See risk 1 above.

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5	1b	Risk of further equal pay claims. Lead: Strategic Director, Finance & Legal Owner: Kate Charlton	Significant / High	**Lead Director comment** Claimant solicitors are continually 'fishing' for further equal pay liability by issuing further equal pay claims in addition to those referred to in risks 01and 04. The validity of these type of claims is, and will be subject to robust legal challenge. At the moment, there is no determination as to liability or attainment as to target risk due to the nature of the challenge.	**Target risk rating:** Medium / High **Anticipated date of attainment of the target risk rating:** Not known at current date. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reporting to Corporate Governance Group, Audit Committee, external & internal audit review. With a view to preventing discriminatory working practices, robust review processes and checks and balances have been put in place to mitigate against / prevent further liability post 2011; where evidence of potential risk(s) is known / identified.	See risk 1 above.
24	N/A	Risk that the need to address the updated Pensions Deficit will result in an increase in employer contributions. Lead: Lead: Strategic Director, Finance & Legal Owner: Steve Powell	Significant / High	**Lead Director comment** The assessment of any pension fund deficit is updated every 3 years. The position as at 31.3.16 will affect employer contribution rates from 2017/18 onwards. The Council has been proactive in working with other councils (particularly through a sub-group of Finance Directors) and in utilising advisors to provide independent advice and expertise. Regular meetings have been held with the Pension Fund (WMPF) and will continue to ensure that there is a shared understanding of the issues facing both parties. We expect to receive information in the near future, which will be taken into account in the update of the Council's medium-term financial plan for the period from 2017/18 onwards. In the meantime, a potential range of impacts has been built into provisional planning figures. (See Risk 13)	**Target risk rating:** Medium / Medium **Anticipated date of review/attainment of the target risk rating:** December 2016. **Source(s) of assurance regarding progress with mitigating the risk:** • Regular updates to WM Finance Directors. • Sub-group continuing to liaise with advisors and WMPF. • Reporting to Leaders.	O&S - None. IA - None.

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3	14b & 50	Failure to identify alternative funding stream for school PFI contracts revenue pressure, impacting on availability of maintenance funding for essential management of the LA schools estate. Lead: Strategic Director, Finance & Legal Owner: Mike Jones	High / Significant	Lead Director comment Major review of PFI contract management arrangements underway following Local Partnerships pilot project. External consultants are engaged and a Lead Officer allocated to fully explore all opportunities to reduce PFI costs. Proposals are being brought forward and while the project more than pays for itself, there are limited opportunities to impact on the major £6m annual affordability gap. The savings proposal, being implemented to meet the current PFI affordability gap from within the funds available to invest in the maintenance of the estate, has not yet impacted on the funding available for emergency repairs. However, there are significant risks of funding shortfall into 2017/18, due to the diminishing annual maintenance grant funds available, particularly as more schools convert to academy status. The current risk rating relates to the PFI affordability gap and subsequent impact on availability of funding to address backlog maintenance across the schools' estate. The opportunities to reduce the PFI costs are limited, and this therefore remains a high risk in terms of management of the education infrastructure and potential impact of asset failure. There is a very substantial Schools Capital Programme in delivery that includes basic need and planned maintenance programmes, with further emergency maintenance projects emerging regularly. Mitigations include: • Schools capital maintenance programme is successfully levering school spend on essential repairs and maintenance through a dual funding strategy. • Dedicated resource is focusing on maximum savings against current PFI contracts although opportunities are limited.	**Target risk rating:** Medium / Significant **Anticipated date of review/attainment of the target risk rating:** September 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management reporting to Strategic Director Finance & Legal on PFI savings. Oversight and monitoring of temporary school closures due to asset failure. A report was submitted to the March Audit Committee meeting outlining some of the initiatives being pursued to reduce the gap and a subsequent report has been consider at Cabinet (20th September 2016), detailing savings associated with the Broadway lifecycle arrangements. The outcomes of recent benchmarking exercises are anticipated to be reported to Cabinet in November 2016. A final offer on benchmarking has been communicated verbally, but until written confirmation has been received the report cannot be concluded.	O&S - None. IA Review 2015/16: Final Planning Permission Breach - Longmoor Special School.

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				• Lean review of Acivico has potential to reduce overheads associated with planned maintenance programme, releasing those funds for investment into the schools stock. • Options for alternative revenue funding stream for the PFI affordability gap are being explored.		
6	46	Failure to obtain the full extent of Core Investment Period deliverables in accordance with the business case for the Highway Maintenance and Management PFI contract. Lead: Strategic Director, Economy Owner: Paul O'Day	High / Significant	Lead Director comment The Council has sought to resolve the issue informally but this was not possible. The Council referred this matter for adjudication under the contractual Dispute Resolution procedure, the outcome of which was advised favourably to the Council's case in July 2015. The outcome was referred to court by the Service Provider, and the trial took place in February 2016. The judgment was handed down on 5th September 2016, which ruled that the adjudication "was wrong", but did not grant the declarations sought by the Service Provider. The Council is considering the merits of appealing the decision. Another related dispute will also need to be resolved, and the way forward on this is also being considered.	Target risk rating: Low / Significant Anticipated date of attainment of the target risk rating: The date of an appeal of the judgement is presently awaited. Resolution of the further dispute is not yet known but is likely to take many months. Source(s) of assurance regarding progress with mitigating the risk: External legal advice and representation has been engaged. The merits of an appeal are being considered.	O&S - Economy, Skills and Transport O&S Committee discussed with Cabinet Member at Committee on 22nd September 2016 and agreed to set up private session / task and finish to scrutinise in more detail. IA Review 2016/17: Highways PFI.

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7	30	Lack of capacity and capability to respond to threat of industrial action, employee relations tensions, poor service, performance issues, sickness absence levels and poor morale due to organisational downsizing and pay freezes. Lead: Strategic Director, Change & Support Services Owner: Claire Ward	High / Significant	Lead Director comment The budget proposals for 16/17 and 17/18 include making savings of circa £30m from workforce costs. In addition there will be continuing headcount reductions of over 1,000. We are also reviewing our organisational operating model, organisational structure and the roles & responsibilities of employees. This is a significant and challenging change agenda that will have an impact on the Council's workforce, including support staff in the 170 schools within the City still under the employment of the Council. In this context the likelihood of some form of industrial action is probable. There are business continuity plans in place in readiness for industrial action and they have been effective in reducing the impact of action on service users. Particular areas of risk such as Fleet and Waste management have well progressed contingency plans. A workforce planning framework is in place for 2016/17 and its effectiveness will be reviewed during the year.	Target risk rating: Low / Medium Anticipated date of attainment of the target risk rating*:* Ongoing. Source(s) of assurance regarding progress with mitigating the risk: Following significant employee engagement and collective consultation and negotiation with the trade unions, we have reached a collective agreement with the trade unions regarding the workforce savings proposals. Therefore there is now a low likelihood of industrial action in relation to these changes. Management are also committed to building on the current positive relationships with the trades unions, to move towards a more collaborative approach to the developments of the Council of the Future.	O&S - The Corporate Resources O&S Committee received an update from the Deputy Leader and senior HR officers at its October 2015 committee meeting. IA Reviews 2015/16: Hardship Grants, Managing Absence, and review of managing absence arrangements in Place Directorate.
9	57	Failure to respond fully and effectively to the issues from recent reviews concerning school governance and related matters. Lead: Strategic Director, People Directorate Owner: Colin Diamond	Medium / High	Lead Director comment Sir Mike Tomlinson was appointed as Commissioner to oversee a programme of improvement and his time in Birmingham ended in July 2016. Improvement is being driven by the Leader, Cabinet Member, Chief Executive and Strategic Director. Progress has been made on a number of issues (for example: a revised recruitment process for LA governors; guidance to schools on the Nolan principles of good governance; improved take up of safeguarding training; a new whistleblowing policy implemented from January 2015; improved communications).	Target risk rating*:* Low / High Anticipated date of attainment of the target risk rating: January 2017. Source(s) of assurance regarding progress with mitigating the risk: Management assurance obtained through the usual systems, and checked by the Cabinet Member. There will also be verification through key channels - the Unions, meetings with Heads and Governors etc. Oversight of the Action Plan and checks on implementation.	O&S - School governance with regard to safeguarding issues was discussed at the June 2015 meeting of the Education & Vulnerable Children O&S Committee and the informal meeting held in October 2015. The whistle blowing implementation was presented in July 2015. Members have been involved in the LGA Peer Review. The Peer Review Findings were discussed at the February 2016

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				The Council commissioned Birmingham Education Partnership to deliver school improvement support and challenge functions from September 2015. An Education Improvement Group comprising BCC, DfE, Regional Schools Commissioner and Ofsted meets monthly to share information on schools causing concern. Systematic school surveys are in place to inform the work of the local authority. Work on civic leadership and community cohesion is being developed given the need to tackle the causal factors underlying Trojan Horse. This will complement the city leadership approach to be established in the light of the Kerslake review. A week long peer review, by the LGA in November 2015, confirmed evidence of progress, particularly on safeguarding & governance, and improved relationships with schools but with more to do. A new Education Improvement Plan has been agreed and covers the next phase of improvement. An operating model for the LA's education function is also being designed and consulted upon. An Ofsted monitoring visit in June highlighted records of children missing education and visits to children with whom the local authority is working (eg. SEND) as matters needing attention. An Ofsted inspection of the LA's School Improvement function is imminent and this will provide evidence of improvement and outstanding work.	Monitor Key Indicators - for example, the extent to which Head Teachers feel complaints / concerns are identified and responded to. Assurance via the Commissioner is an external check. A performance culture and set of arrangements are now in place for the Council's education services.	committee meeting. Governance and related matters were also picked up in the previous Scrutiny Inquiry on Child Sexual Exploitation (presented to Council in December 2014) and the recommendations are currently being tracked. An update report was presented in October 2016. IA Reviews 2014/15: Saltley School Visit. School Improvement Strategy. IA Reviews 2015/16: School Governance 2015, numerous school visits and Schools Unannounced Cash Counts. IA Reviews 2016/17: Numerous school visits.

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11	45	That the loss of significant personal or other sensitive data may put the City Council in breach of its statutory responsibilities and incur a fine of up to £500,000 from the Information Commissioner. Lead: Strategic Directorate, Major Projects Owner: Malkiat Thiarai	Medium / High	Lead Director comment Current controls based on encryption of data on mobile devices or copied to removable media; and programme of staff education and training. Breach management processes have been established with clear lines of responsibility to the Senior Information Risk Owner (SIRO), and the Monitoring Officer. Known data breaches are discussed at the Breach Management Panel and reports and recommendations are presented to the Monitoring Officer for consideration to notify the Information Commissioner's Office. Egress has been deployed and is operational. The e-learning Information Governance modules were launched in October 2016 following approval by the SIRO.	**Target risk rating:** Low / High **Anticipated date of attainment of the target risk rating:** August 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance via reports to Breach Management Panel. The annual Breach Management report has been prepared and was presented to the IAB in May 2016. The report shows a reduction in the number of breaches reported from the previous year. Further controls on assuring that suppliers and partners impose similar controls on Council data in their possession.	O&S - None. IA Reviews 2014/15: Third Party Service Provision, Review on SARs, MASH, Family Support - Data Quality, Children's Services - Data Security Breach and IT Standards. IA Reviews 2015/16: Caldicott Guardian, Information Governance (IG) - Data Classification, Third Party Information Security, Data Sharing Review, Sophos Local Self Help, and IG - Fostering & Adoption. IA Reviews 2016/17: Sophos Post Implementation Review, N3 Network and IG - Fostering & Adoption F/Up.
25	N/A	Failure to comply with statutory timescales in relation to DoLS (Deprivation of Liberty) referrals, which could lead to legal challenge and result in financial loss to the Council. Lead: Lead: Strategic Director, People Directorate Owner: Alan Lotinga	Medium / High	Lead Director comment This risk is made of 2 components: 1) DOLS in Care Homes and Hospitals - Since May the combined effect of all the actions taken (including increased resources, recruitment, sponsored training, contracting with an external provider for BIA services and other measures), has continued to result in a steadily improving position. May's backlog of 1212 had reduced to 11 cases by the end of September.	**Target risk rating:** Medium / Significant **Anticipated date of review/attainment of the target risk rating:** March 2017. **Source(s) of assurance regarding progress with mitigating the risk:** DOLS in Care Homes and Hospitals - Continue existing actions to achieve removal of assessment backlog by March 2017. Deploy new fast track renewal process for authorisations less than 1 year old.	O&S - None. IA Review 2015/16: Deprivation of Liberty. IA Review 2016/17: Deprivation of Liberty Standards F/Up.

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				The Council's Best Interests Assessors Team is now able to complete as many assessments as referrals received each month. Working towards all assessments being undertaken within the legal time limit of 7 days (for urgent cases) 21 days (for standard cases), is a significant challenge that no other West Midlands local authority has so far achieved. 2) Community DOLS - DOLS in a citizen's own home; a suitably briefed social worker can undertake this work, rather than a Best Interests Assessor with a Psychiatrist; but only the Court of Protection can authorise these DOLS, following the preparation of a case by Legal Services. The approach to this risk, in line with that adopted by other local authorities, has been to set up a business process, train staff to respond to cases of the highest risk and priority, and give managers clear guidance as to which cases should be a priority (in line with Department of Health guidance). This is because there will be many hundreds of potential situations where technically a Community DOLS could be required, and the Council could not possibly undertake all this lengthy work and meet any of its other statutory duties. The legal costs of requesting court decisions would also make this impractical and Legal Services would have insufficient resources to meet this demand. A business process, staff procedure, manager prioritisation guidance and staff training have been established, in conjunction with Legal Services. Training of the workforce is well advanced. Assessments and presentation of cases to the Court of Protection have commenced. Financial pressures continue to be closely monitored / reported.	Community DOLS - Continue to train staff and priorities those highest risk cases where the approach would bring significant benefits to the citizen for requesting Court decisions, in line with Department of Health guidance.	

APPENDIX A

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8	N/A	Risk of challenge regarding implementation of the Younger Peoples Re-Provision Programme. Lead: Strategic Director, People Directorate Owner: Alan Lotinga Note: will consider the closedown of this risk and replace it with risks identified through the MIA Programme.	Medium / Significant	Lead Director comment The Younger Peoples Re-Provision programme is focused on maximising people's independence and moving them to less restrictive accommodation, which has encountered opposition from carers who do not want people to move. There has also been opposition from providers. Legal Services involved in high risk cases. Proposed new team to script and roll out the offer - job descriptions have been written and JQ'd adverts placed in January. Responses to the 'new team' adverts were poor. As a consequence, concentration has shifted to Senior Management capacity and the detail around 'Maximising Independence for Adults (MIA)' - the transformational plan for adults taking us to 2020. Recruitment for senior capacity is taking place and the Transformational Plan looks at the Adult Services across the board. Future Council Proposals did proceed and are now wrapped up and contained within the Maximising Independence Programme work. As a consequence PEPSG was reviewed and closed down. Close down report completed. The work that was completed for Younger Peoples provision and the associated savings have been removed and replaced. The Adult Savings are now contained within different project lines and reported into the Maximising Independence Board. There is also other work continuing in terms of savings that currently sit outside the MIA Board.	Target risk rating: Medium / Significant Anticipated date of attainment of the target risk rating: Targets and Risk are being identified and will be detailed in the project approach for MIA programme. Source(s) of assurance regarding progress with mitigating the risk: The Care & Housing Allocation Panel (CHAPS) is in operation, and receives all information regarding placement moves. Commissioning are contributing and discussion is taking place regarding the market. The appointment of a Lead Officer, Commissioning has helped. MIA Programme Board in place as well as MIA Operations Board.	O&S - None. IA Review 2015/16: Young Adults Re-provisioning. IA Review 2016/17: Independent Living F/Up. Young Adults Re-provisioning F/Up.

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10	N/A	Not responding fully and effectively to the recommendations made in the Kerslake Report and implementing the Future Council Programme. Lead: Chief Executive Owner: Angela Probert Risk split (see new risk 29)	Medium / Significant	Lead Director comment The Future Council Programme budget has been identified and is being supplemented with funding from the Department for Communities and Local Government. The Kerslake actions are a sub set of the programme and delivery is being monitored on a monthly basis. The Future Council Programme Board has been subsumed into the monthly CLT Performance Board. In its most recent letter to the Secretary of State, published on 9th November 2016, the Birmingham Independent Improvement Panel recognised that the Council has made progress in addressing many of its own improvement priorities and handled effectively some unexpected external events and challenges. The Panel also noted that focused activity has enabled the Council to further address some of the outstanding recommendations from Lord Kerslake's review.	Target risk rating: Low / High Anticipated date of attainment of the target risk rating: Ongoing - review April 2017. Source(s) of assurance regarding progress with mitigating the risk: Planned activities to further mitigate this risk: • There was a report to the Birmingham Independent Improvement Panel in Autumn 2016.	O&S - A Future Council Working Group has been set up under the Corporate Resources and Governance O&S Committee to maintain oversight of Future Council programme. The Corporate Resources O&S Committee and Neighbourhood & Community Services O&S Committee completed work on reviewing governance arrangements at district level, including the Neighbourhood Challenge. There is a Member Development Programme in place and the Corporate Resources O&S Committee received an update on the work completed to date at its September 2016 meeting. A further update will be brought to that committee. IA Review 2015/16: Customer Service Contract Centre Dashboard.

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29	N/A	Not developing sufficiently robust plans to support setting a balanced budget (including in the medium term), and not containing net spending within the approved budget Lead: Strategic Director Finance & Legal Owner: Steve Powell New Risk	Medium / Significant	Lead Director comment The following key activities have been undertaken: • The Council holds reserves which can be used as part of a risk management strategy to support the implementation of the budget. Financial support is being provided to address budget pressures. • Delivery of the budget and savings programme is being closely monitored, and the outcome of a Mid-Year Review was reported to Cabinet on 20 September 2016. • The Council's LTFP is being refreshed to take account of latest information, including any areas where savings are no longer considered to be deliverable. Policy choices are being discussed with Cabinet Members, with proposals being developed in the context of the Council's vision and policy priorities.	Target risk rating: Low / High Anticipated date of attainment of the target risk rating: Ongoing - review April 2017. Source(s) of assurance regarding progress with mitigating the risk: Planned activities to further mitigate this risk: • There is close monitoring of the delivery of the Business Plan and Budget (including reports through directorate management teams to the CLT Performance Board, as well as to Cabinet), with a particular focus on effective project management and the resolution of delivery difficulties and, if necessary, the adoption of appropriate mitigation strategies. • The Council has a risk management strategy to address issues relating to difficulties in the delivery of the savings programme. • The Mid-Year Review was undertaken relatively early in the financial year and alternative plans are being developed where necessary. • There is a clear focus on the development of robust consultation and implementation plans for all savings. • The Council maintains a medium term perspective in its financial plans - spending, savings and resources.	

Corporate Risk Register Update for Audit Committee November 2016

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12	2	Failure to comply with all of the requirements of the Equality Act (2010) and the Public Sector Equality Duty. Lead: Strategic Director, Place Directorate Owner: Jacqui Kennedy	Medium / Significant	Lead Director comment The Public Sector Equality Duty (PSED) was created by the Equality Act 2010 and is set out in section 149. It applies to public bodies, such as local authorities listed in Schedule 19 to the Act, and to other organisations when they are carrying out public functions. The PSED contains specific duties (Specific Duties Regulations 2011) which are an important lever for ensuring that public bodies take account of equality when conducting their day-to-day work. When delivering their services and performing their functions, bodies subject to the PSED must have due regard to the need to: • Eliminate discrimination, harassment and victimisation and any other conduct that is prohibited by or under the Act. • Advance equality of opportunity between people who share a relevant protected characteristic and people who do not share it. • Foster good relations between people who share a relevant protected characteristic and those who do not share it. Legal challenge can delay implementation of change and significantly delay or reduce the planned savings to be achieved this may also have a detrimental impact on other services. It is important therefore, that Equality Assessments (EAs) are carried out robustly across BCC regarding all initiatives and service delivery changes. The responsibility for ensuring that EAs for all major policy / budget changes lies with the Directorates. Directorate Equality Champions are responsible for assuring their SMT that a governance framework is in place across their directorate which supports the equalities agenda and compliance to legislation. They should ensure that the EAs produced by the service are capturing evidence of ongoing compliance. Legal Services are advising on high risk EAs.	Target risk rating: Medium / Significant Anticipated date of attainment of the target risk rating: Attained. Source(s) of assurance regarding progress with mitigating the risk: • Corporate Governance is in place to manage this risk effectively and close monitoring by ECS&CS and Legal Services will continue in order to address any issues which may arise. • Corporate Consultation undertaken on savings proposals. • Unique EA reference will be tracked and reported against individual Corporate Savings Proposals. • Corporate Steering Group to oversee compliance. • Initial RAG assessment of savings proposals to be undertaken. • Legal advice sought on high risk initiatives. • Process of Legal sign off on Cabinet Reports. Management assurance. In addition to current guidance and information, the development and use of the online Equality Analysis Toolkit will help mitigate against managers undertaking inadequate EAs. The toolkit provides a step by step process and on line guidance to completing an EA and developing an action plan. The online toolkit provides an overview of all EAs undertaken on the system. Project managers are encouraged to take legal advice on high risk initiatives.	O&S - None. IA Reviews 2014/15: Corporate Review, other work at request of Mashuq Ally re ethnicity monitoring. IA Review 2016/17: Audit planned to review divisional management arrangements, including review of management of the corporate risk.

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				Following consultation with Legal Services and Directorate Equality Leads, the Equality Analysis Toolkit was developed to improve the guidance information to staff. If followed, this guidance should help improve the content and standard of EAs submitted for approval. The Equality Analysis Toolkit is available to Directorates to undertake EAs for all new Policies and Procedures, and the EA process includes a quality assurance check by the Directorate Equality champion, alongside a senior officer level sign off and assurance of each EA. Advice and support on completion of the EA is provided from the Equalities, Community Safety and Cohesion Service (ECS&CS) and Legal Services. Guidance on undertaking consultation has been updated and is available on Inline and this is now aligned with the EA process. Over 700 staff ranging from GR5 through to JNC have been trained on the EA Toolkit and on undertaking an EA. Corporate consultation and EAs have been undertaken on all relevant corporate savings. Directorates will continue to undertake consultation and EAs for individual initiatives where appropriate. This process is overseen by the Directorate Equality Champions. Directorate DMTs will monitor progress on the EAs alongside other performance related issues which are then reported to the CLT Performance Board. A robust approach exists for savings proposals. Corporate Consultation, EAs and all associated consultation are aligned, with emphasis on feedback from the protected groups. All EAs and consultation are tracked corporately. In line with the Specific Duties Regulations 2011, the council must annually publish information relating to (a) people who are affected by our policies and practices who share protected characteristics; and (b) our employees who share protected characteristics. The Regulations also require us to		

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				set equality objectives every 4 years. In 2014 the City Council published high-level actions identified to deliver the council's business plan and achieve the council's vision. In March 2016 the council approved its vision, priorities and approach set out in the Council Business Plan.		
13	28	a) Not planning appropriately for the on-going reduction in government grants resulting in a shortfall in resources, including taking the necessary actions to avoid legal challenge. b) Failure to deliver the necessary actions to implement the savings programme. Lead: Strategic Director, Finance & Legal Owner: Steve Powell	Medium / Significant Significant / High	Lead Director comment Projections of resources are updated on a regular basis in the light of announcements made by the Government. This is assisted by liaison with the DCLG, LGA, IFS and other authorities to ensure that up-to-date intelligence is used. Councils now have the opportunity to benefit from multi-year settlement figures published by DCLG, giving much greater certainty on the future financial position. The Council has written to the Government to agree the offer of a multi-year settlement; and is currently waiting for Government confirmation. The Council's Long-Term Financial Plan, approved at the City Council meeting on 1 March 2016, set out a financial strategy for delivering a balanced budget over a ten-year period, linked to the Council's strategic priorities. This included a significant level of contingency funding as a mitigation against delivery difficulties. The Council's business planning process includes appropriate assessments of the equalities impacts of new proposals, and arrangements for the necessary consultation processes. Regular advice is provided by Legal Services and Equalities officers in this regard. The monitoring of the revenue budget, including the savings programme, is reported monthly via directorate management teams to the CLT Performance Board. This has a multi-year perspective. This has a particular focus on problem resolution and the identification of appropriate mitigating actions where necessary.	Target risk ratings: a) Low / Low b) Medium / High Anticipated date of attainment of the target risk rating: On-going. Source(s) of assurance regarding progress with mitigating the risk: Management assurance as detailed in Lead Director comments also an Internal Audit review.	O&S - The subject of reduction in government grants has arisen in general terms at the Corporate Resources O&S Committee in discussions with the Leader and Deputy Leader regarding the budget. There has recently been a discussion at the Corporate Resources O&S Committee on the in-year monitoring position. IA Reviews 2014/15: FCRs, Accounting for VAT and Fixed Assets - several areas. IA Review 2015/16: Management and monitoring arrangements for delivery of the Council Savings Plan. IA Review 2016/17: Savings Plan - Progress.

APPENDIX A

Corporate Risk Register Update for Audit Committee November 2016

New No.	Original No.	Description - risk / issue	Current level of risk L/I	Current actions / Comments	Long term aim for the risk - including actions, timescales and target risk rating	Overview & Scrutiny (O&S)Review / Work & Internal Audit (IA) Work
				Resources have been identified to provide additional capacity / expertise to facilitate the implementation of the savings programme and the associated organisational change. The Council's on-going financial position is updated on a regular basis, and is linked to the monitoring process. As part of the preparation of the mid-year review of the revenue budget, and in preparing the report to Cabinet, a pragmatic assessment has been made of the extent to which savings are now felt to be undeliverable, and also of new savings opportunities. This has included consideration of the position for future years. Consideration of further savings opportunities is being taken forward in the context of the Council's policy priorities, and the impact in future years will feed into the business planning and consultation processes leading up to decision-making by the Council in the Spring in the usual way.		
14	52	Inadequate or ineffective corporate control of non-core IT spend as a result of insufficient in-house IT expertise within Directorates to ensure software / systems changes are adequately specified, that their implementation is adequately managed and that changes are adequately coordinated across the organisation to maximise the benefit to the Council. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Medium / Significant	Lead Director comment The ICT and D Strategy was approved by Cabinet on 18th October 2016, and provides a stronger framework for ICT&D within the Council. The work is led by the Interim CIO. In addition, additional resources for the ICF are either in place, planned or being developed. Where appropriate additional work has been sourced from third parties. Business case training has also been provided across BCC to ensure that officers improve their abilities to detail business requirements that may lead to an ICT solution. At a Directorate level Strategy groups are in place, and they review all ICT spending to ensure there are robust business cases and no duplication of solutions.	**Target risk rating:** Low / Significant **Anticipated date of attainment of the target risk rating:** November 2016. **Source(s) of assurance regarding progress with mitigating the risk:** Governance structure in place and planned actions.	O&S - Completed Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). A progress report on implementation of the recommendations was considered at the April & September 2016 meetings of the Corporate Resources O&S Committee. IA Review 2015/16: IT Project Governance. IA Review 2016/17: IT Project Governance F/Up.

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15	32	Risk of not recognising the need to divest of costly property assets in radical new solutions to reframe service delivery; driving out property for disposal, but beyond capital receipt generation, ultimately solutions should deliver radical reductions in future revenue operating costs. Lead: Strategic Director, Major Projects Owner: Peter Jones	Significant / Medium	Lead Director comment Risk mitigated by: • The Future Council Programme and proposals put out to public consultation, have the potential to drive commitment to property rationalisation, as part of the contributions to future years cost reductions. • To assist with property rationalisation alongside future service planning and development programmes, a Property Services Business Partner role has been established with the Place Directorate. • The Corporate Landlord Service has cleared, decommissioned and sold Tamebridge House. • Accommodation changes across Directorates are being dealt with and the freeing up of space to accommodate the Call Centre, and Service Birmingham staff has been achieved (this has enabled the release of B1). Further 're-stacking' is underway to assist occupants improve their working practices and utilisation of the office space available. • Continued development of the corporate property database (Techforge) - information and systems development continues to progress as planned and the additional functionality is being applied in the management of repairs and maintenance costs, provision of information and analysis to inform strategic decision making, etc. • The 'Smarter Working' project is intended to increase agility and bring further organisation and management culture change across the Council. A key outcome will potentially be further rationalisation of the Central Administration Buildings portfolio.	Target risk rating: Medium / Low Anticipated date of attainment of the target risk rating: April 2017. Source(s) of assurance regarding progress with mitigating the risk: Management assurance as detailed in Lead Director comment.	O&S -None. IA Review 2014/15: Asset Management Corporate Review.

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16	42	That web services to customers or work with partners may be disrupted by malicious attacks on the City Council's web based services. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Significant / Medium	Lead Director comment Service Birmingham on behalf of the Council: • Have updated the Councils firewalls and introduced Intrusion Prevention Services (IPS) as part of the firewall implementation. This means that the firewalls are receiving regular updates from the supplier to detect new and evolving types of security attack. The firewalls detect and defeat many thousands of attacks every day. • Have implemented a cloud based Distributed Denial of Service (DDoS) system that defends four of the Council's main websites from high volume attacks where hackers are trying to flood the Council's websites with requests for service. This service regularly defends the Councils web sites from attackers and the contract is currently being renewed. • Continuously scan the information security landscape with partners to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Have implemented the PSN walled garden which has enhanced the security of all users accessing web based government systems. PSN services have been remodelled and are currently being monitored to ensure secure transmission. • SB are producing a Lesson Learnt from the PSN process to ensure improved future working. The management of cyber risks within BCC will form part of the security strategy and responsibilities clearly defined. The ICF will ensure that the cyber risk investment strategy is aligned to, and supports strategic priorities. There is improved reporting of cyber risks and security incidents which will be presented to the Corporate Information Security Group bi-monthly. This will ensure BCC are fully aware of potential regulatory & legal exposures and can assess the implications for future investment decisions.	Target risk rating: Low / Medium Anticipated date of attainment of the target risk rating: Ongoing - this risk can only ever be mitigated, and never fully closed due to the nature of hacking etc. Source(s) of assurance regarding progress with mitigating the risk: • The Council are now transmitting sensitive data securely through the PSN secure infrastructure together with the improvements / enhancements made to the firewalls. • BCC has successfully passed its PSN accreditation. • Service Birmingham, on behalf of the Council, are constantly monitoring the information security landscape with solution providers to detect upcoming and new vulnerabilities which could be exploited by potential hackers. • Given the nature of this risk these activities are now being kept under constant review.	O&S - Referenced in the Scrutiny Inquiry 'Refreshing the Partnership: Service Birmingham' (presented to Council in June 2015). IA Reviews 2014/15: Cyber Risk & Firewalls. IA Review 2015/16: Web Page Security. IA Review 2016/17: Web Page Security F/Up.

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17	55	Ineffective Corporate Risk Marker IT solution. Lead: Strategic Director, Change & Support Services Owner: Chris Gibbs	Significant / Medium	**Lead Director comment** The Corporate Risk Marker solution in SAP CRM system is defective and the data harmonisation to service areas is not working as specified. Whilst a more long term solution is investigated as part of the updating of the Councils e-forms package, an interim solution is being investigated to see if the data warehouse held within the Councils Audit Division can offer the required functionality to enable this risk to be at least partially mitigated. Note: Access to the information will only be available to those members of staff who can access the data warehouse.	**Target risk rating:** Low / Medium **Anticipated date of attainment of the target risk rating:** May 2017. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance. Interim manual process currently in place. Monitoring the use of the IT system by Corporate Safety Services.	O&S - None. IA - None.
18	37	Failure to adequately identify the costs and benefits of alternative delivery models arising from Service Reviews to enable them to be fully and accurately modelled and ensure they are feasible and the changes proposed can be delivered, before the decision to move forward is made. Failure to fully implement the decisions taken to change BCC policy and service delivery to enable delivery of expected benefits / efficiency gains. Lead: Strategic Director, Change & Support Services Owner: Nigel Kletz	Medium / Medium	**Lead Director comment** Any alternative delivery model must demonstrate some benefit and better value for the Council. There needs to be the early identification of all costs and benefits as part of the formulation and evaluation of options in the consideration of the business case. The ADs of Finance will provide support on key projects based on their area of expertise. Those developing new service delivery options need to evaluate the full circumstances on a case-by-case basis, seeking proper advice where necessary, in order to identify the implications of the change in service delivery model. This will include assessing what will be left behind in BCC (e.g. fixed overheads, income targets etc.) as well as ensuring that all of the costs and income of the new model are taken into account - including those which are not applicable to a local authority model of delivery (e.g. taxation), together with some sensitivity and risk analysis. This needs to be done before any commitments are given. The need to evaluate the full circumstances for each delivery option requires a	**Target risk rating:** Medium / Medium **Anticipated date of attainment of the target risk rating:** Attained. **Source(s) of assurance regarding progress with mitigating the risk:** Management assurance - reports to EMCB, notes and actions from Corporate Commissioning Board agenda. Dialogue with directorate lead commissioners. Finance to be involved in commissioning reviews. Additional resources to support commissioning have been recruited (internally) to support the commissioning approach. Commissioning Toolkit in place. Risk will be managed on a case by case basis through proper use of the Toolkit, and through reviews supported by the ADs of Finance. A checklist developed by AD Finance (Strategy) will	O&S - None. IA Reviews 2014/15: Acivico reviews, Museum Management Arrangements, Golf Management Arrangements, Efficiency Agenda and Change Management. IA Reviews 2015/16: Acivico Deferred Services, Governance Review, Acivico Contract Monitoring, Procurement Contracts - Engagement of Individuals and Acivico - Recruitment & Selection Concerns. IA Reviews 2016/17: Acivico Contract Monitoring - Overall delivery of

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				proportionality to it, and due regard for the need for calculated assumptions in order to avoid over-engineering financial modelling based on projected costs. The risk to the transferred service is the possible future loss of the Council as a customer and the risk to the Council is the loss of services provided to the transferred service as a customer, if the transferred service obtains these same services from another provider. These risks need to be managed by the corporate commissioning hub with peer reviews undertaken by Thematic Centres of Excellence and approval via Cabinet.	continue to be used to ensure proper evaluation and appraisal of decision making reports. Corporate Commissioning Board will provide the governance for new commissioning strategies. CPS believes that given the challenges encountered in supporting alternative delivery models, and the innovative approaches required, the risk remains at Medium / Medium (target met). Only when we have examples of alternative delivery models being successfully implemented should this risk be removed. Mitigations detailed above are now in place with commissioning checklists to CCB ensuring that appropriate resources are in place to manage risk in implementing alternative service delivery models.	Contract and Contracts & Procurement Summary Report 2015/16. Acivico Contract Monitoring - Final Accounts Process.
19	41	Failure to deliver the Council's localisation agenda and commitments made in the Council's Improvement Plan and Leaders Policy Statement. Lead: Strategic Director, Place Directorate Owner: Chris Jordan	Medium / Medium	Lead Director comment The Improvement Panel have assessed progress in relation to the specific prescriptions made on localisation through the independent Lord Kerslake report and commitments made against this in the Council's Improvement Plan in September 2015 and January 2016. The feedback from this has been positive. In particular all direct recommendations have been actioned including the transfer of delegations away from district committees and the delineation of a new role for district committees. Services are now accountable to cabinet portfolios and management. The remit for district committees around neighbourhood challenge and community planning has been embedded effectively. Policy guidance for this was agreed by cabinet in July 2015 and development undertaken with members in five sessions over July to October, with delivery of outcomes currently live within 2016/17. Delivery against this has been performance managed through the Future Council Local Leadership sub programme board	Target risk rating: Low / Medium Anticipated date of attainment of the target risk rating: Attained. Source(s) of assurance regarding progress with mitigating the risk: Management assurance as detailed in Lead Director comment - Scrutiny Report in January 2013. Cabinet Committee Local Leadership is meeting monthly and now has accountability for progressing this agenda.	O&S - The Corporate Resources O&S Committee has completed a piece of work around district and ward arrangements. This includes a review of arrangements put in place in May 2015 and options for the future development of devolution. The Neighbourhood & Community Services O&S Committee completed a review of the Neighbourhood Challenge. Recommendations were made to the Leader.

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				meeting fortnightly. This has now moved to business as usual. The next phase of local leadership / political governance is being shaped through the newly formed Cabinet Committee Local Leadership. Four Assistant Leaders have been given responsibility to review local working with a focus on 'every place matters' and 'delivering differently in neighbourhoods'. A clear timetable has been set out for their work and how this ties into the changing landscape for ward and district committees.		IA Reviews 2014/15: Housing Governance Arrangements and watching brief - quarterly progress updates from Place. IA 2015/16: Watching brief - quarterly progress updates from Place.
20	44	Unpaid allowances / contractual overtime payments / equality of flex time agreements. Lead: Strategic Director, Change & Support Services Owner: Claire Ward	Medium / Medium	Lead Director comment The bulk of unpaid allowances claims have been successfully managed by Legal Services on a case by case basis, with outstanding claims being considered and managed by Legal Services on the same basis. A review of all contractual overtime has been undertaken and completed. There is confidence that all application of contractual overtime is appropriate. There is a clear policy and monitoring framework regarding the application of regular overtime. A new standard Flexi scheme has been developed as part of the Future Council workforce Contract.	Target risk rating: Medium / Medium Anticipated date of attainment of the target risk rating: Attained. Source(s) of assurance regarding progress with mitigating the risk: Management assurance. All new claims for allowances are being assessed on their merits and defended wherever practical. Use of overtime is being monitored on a monthly basis, with Strategic Directors taking responsibility for addressing any areas of concern. A new universal Flexi scheme will be introduced as part of the new contract of employment to be introduced in 1st July 2017. There is a Governance Board monitoring any potential high risk claims.	O&S - None. IA Review 2014/15: Review on overtime -in conjunction with HR. IA Review 2015/16: Overtime F/Up.

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22	54	Risk of fines from HMRC for Directorates employing long term consultants. Lead: : Strategic Director, Change & Support Services Owner: Nigel Kletz	Low / Significant	Lead Director comment A revised process has been implemented for the engagement of off payroll 'Individuals' in April 2016 which has resulted in a significant increase in compliance. HR and CPS are working collaboratively to ensure compliance by cascading the process through DMT's and monitoring engagements centrally within the CPS compliance team. No orders are released until the manager has completed all the required approval documentation.	Target risk rating: Low / Medium Anticipated date of attainment of the target risk rating: September 2017. Source(s) of assurance regarding progress with mitigating the risk: The new process has been widely publicised to all Directorates and is available on People Solutions as well as Voyager. It has been embedded in to the procedures within Payroll and CPS. In addition CPS are in the process of arranging information events for officers to attend in order to gain further advice, guidance and support in order to minimise the Council's exposure to risk. A review group has been established to review the new proposals being introduced with regard to off payroll engagements by HMRC from April 2017. This requires all off payroll engagements within the public sector to be paid via PAYE by the Council. The Director of HR has taken over ownership of interims & off payroll individuals.	O&S - None. IA Review 2014/15: Audit carried out in quarter 3.

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23	59	Risk of enforcement action and fines of up to £500,000 by the Information Commissioner's Office (ICO) for failure to comply with the 40 day timescale for responding to Subject Access Requests (SARs). Lead: Strategic Director, Major Projects Owners: Alastair Gibbons, Adrian Phillips & Dawn Hewins Risk nominated for deletion.	Low / Medium	Lead Director comment The ICO wrote to BCC in December 2014 re an issue with timely responses to SARs. An action plan has subsequently been submitted / accepted by the ICO, and monthly reporting to the ICO will continue until April 2016. In respect of Children's reporting, there has been a great improvement with SAR and FOI delays. In March 2016 only one SAR was outstanding due to the particular circumstance of the case. Adults continue to monitor SARs and FOIs with reports produced for the Caldicott Guardian. No concerns have been reported. Corporately, the Head of Corporate Information Management is reporting that the ICO is happy with progress and are no longer monitoring the Council.	Target risk rating: Low / Low Anticipated date of review/attainment of the target risk rating: April 2016. Source(s) of assurance regarding progress with mitigating the risk: Management assurance from HR and Children's Services.	O&S - None. IA Review 2014/15: SARs. IA Reviews 2015/16: SARs F/Ups. IA Review 2016/17: HR SARs.

APPENDIX A

Corporate Risk Register Update for Audit Committee November 2016

Removed Risks:

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

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
21	Succeed economically	Adverse impact of the economic downturn.	This has been included by Directorates as business as usual now. It will continue to be monitored via Directorate and Department risk registers.	July 2010
3	Succeed economically	Failure to progress the Cross portfolio elements of the Working For The Future (WFTF) programme.	This has been flagged for deletion by the Corporate Director of Resources as progress is being made on this and where there are problems with buildings this is covered in new risk 32 added November 2010.	November 2010
1c	Achieving excellence	Failure to implement the pay and grading review for all non-schools staff.	The pay and grading structure for has now been fully implemented and this is no longer a risk.	March 2011
6a	Achieving excellence	Failure to adopt the new working practices implemented through the EPM programme which in turn will impact on benefit delivery.	The new working practices have become business as usual. Benefits delivery is being monitored as part of risk 4.	March 2011
6b	Achieving excellence	Failure to achieve the IT infrastructure which allows all employees to access information electronically.	A full business case is being developed to achieve this. This is no longer a corporate risk and will be monitored through the Corporate Resources Directorate risk register.	March 2011
24	Achieving excellence	Failure to manage pay progression effectively.	The pay progression framework has been applied to Council managed staff and is no longer a risk. The pay progression issue regarding schools staff is covered in risk 1a and will also be monitored through CYP&F Directorate risk register.	March 2011
12	Make a contribution	Failure to engage and inform communities around the Council's approach to improving community cohesion.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and it has been delegated to the Strategic Directorate of Corporate Resources' risk register for continued management.	July 2011
18	Achieving excellence	Failure to implement recommendations made to improve internal control in the External Audit Annual Letter and by Internal Audit to help prevent fraud and error.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
29	Achieving excellence	Failure to achieve progress against local priorities as stated in the Sustainable Community Strategy.	Strategic Director of Corporate Resources considers this is no longer a corporate issue and the risk has been delegated to each Directorate to continue to manage.	July 2011
27	Succeed economically	Failure to put in place action plans and strategies to fully mitigate the effects of reductions in area based grants.	Merged with risk 28 "Need to meet the massive spending reductions over the three years from 2011/12" at request of Strategic Director of Corporate Resources.	December 2011

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Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
11	Enjoy a High Quality of Life	Failure to deliver Achieving Excellence with Communities.	The target risk level has been met. Cabinet Committee Achieving Excellence with Communities receives progress reports. The risk has been delegated to Homes and Neighbourhoods directorate to manage.	March 2012
33	Succeed Economically	Failure to adapt to Climate Change.	The target risk level has been exceeded and long term planning has now been put in place. This risk will continue to be managed by directorates.	March 2012
9	Public Service Excellence	Need for capacity to react promptly to and manage the significant workforce changes occurring.	The level of risk has reduced to the target level.	July 2012
31	Public Service Excellence	HRA Finance Reforms.	This is no longer a risk - the funding has been agreed and is included in the 2012/13 budgets.	July 2012
34	Enjoy a High Quality of Life	Independent Care Sector Fees.	The target level of risk has been attained. The risk will continue to be monitored by the Adults & Communities Directorate.	July 2012
38	Public Service Excellence	Failure to maintain infrastructure assets including responsibilities regarding protected listed buildings.	Merged with risk 32 and changed to: Shortage of capital and failure to take appropriate long term decisions to manage the property asset portfolio (by disposals and reinvestment of capital in the residual estate); including responsibilities regarding protected listed buildings, leading to escalating costs.	November 2012
39	Public Service Excellence	Shortfall in resources compared to projections from 2013/14 onwards as a result of the new system of local retention of business rates.	Merged with risk 28 and changed to: Need to plan appropriately for the on-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14, particularly the significant potential reduction in resources from 2014/15, and avoid legal challenge.	November 2012
53	Public Service Excellence	Inadequate or ineffective corporate control of non-core IT spend.	Merged with risk 52 to become: Insufficient in-house IT expertise within Directorates & Inadequate or ineffective corporate control of non-core IT spend.	July 2013
5	Stay Safe	Safer recruitment.	Had been at target level of risk for over 12 months, will be managed locally in future.	July 2013
36	Public Service Excellence	Council Tax Rebate scheme.	The Council Tax Rebate scheme has been adopted by Full Council and was implemented with effect from 1/4/2013.	July 2013

APPENDIX A

Corporate Risk Register Update for Audit Committee November 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
49	Succeed Economically	Delivery of Business Charter for Social Responsibilities.	Cabinet reports and policies for Social Value: The Charter and Living Wage were approved by Cabinet in April 2013.	July 2013
43	Enjoy a High Quality of Life	Implications to BCC regarding decision making due to the provisions within the Localism Act and need to respond to community approaches under the Act.	This issue has been assessed as having met the target level of risk (Low likelihood and Medium impact) since May 2013. Corporate Resources and Development & Culture Directorates to continue to monitor locally.	November 2013
4	Public Service Excellence	Need to achieve the full benefits from the whole business transformation programme - including financial and non-financial benefits.	The risk has been fully mitigated and is assessed as being a low likelihood and low impact. The financial challenge going forward is covered within Risk 28 "On-going reduction in government grants resulting in a shortfall in resources compared to projections from 2013/14".	March 2014
1d	Public Service Excellence	Failure to successfully settle pay & grading and allowances equal pay claims.	The issues will be addressed within risks 1a - 1c & 44.	July 2014
26	Be Healthy	Failure to utilise resources well in jointly working with the NHS to reduce delayed discharges as measured by National Performance Indicator ASCOF2C.	No Birmingham hospitals are now fining the Council for delayed transfers of care activity, and Members are supportive of the progress made and sustained.	July 2014
48	Be Healthy	Delivery of new Public Health responsibilities.	All of the actions relating to the transition of Public Health have been actioned.	July 2014
20	A Prosperous City	Demonstration of benefits arising from Customer First.	All of the actions for 2014/15 are being put in place, ie: Launch of the new Housing Repairs functionality which was delayed from last year, re-design of the website, promotion of self service, improvements to online forms, etc.	November 2014
25	A Prosperous City	Production of timely & accurate IFRS Final Accounts.	The accounts were submitted on 30th June 2014.	November 2014
51	A Prosperous City	Service Birmingham support provided to the SAP HR and payroll system.	There has been significant progress against an agreed improvement plan and the service is now significantly more stable.	November 2014
2015/16.08	A Fair City	Insufficient resources (finance & people) to agree / deliver the change programme.	Cabinet approved a report on 20th April 2015 that set out the Children's Social Care and Early Help Improvement Plan for 2016-2018, including the appropriate financial envelope for the plan.	July 2015

Corporate Risk Register Update for Audit Committee November 2016

Ref No.	Strategic Outcome / Corp Object	Risk description	Reason for removal	Date removed
2015/16.25	A Prosperous City	Supply chain failure by reason of supplier withdrawal, liquidation or contract non-compliance.	Following identification of this risk, processes and procedures were developed and rolled out to key contract managers across the organisation with supply chain risk assessments being completed by suppliers. The supply chain risk assessment process is now captured as an annual activity within the supplier annual reviews and the Council's contract management toolkit.	July 2015
2015/16.26	A Prosperous City	PSN resubmission.	The Council has successfully retained PSN submission till April 2016.	July 2015
2015/16.27	A Prosperous City	Financial implications of failing to meet obligations regarding climate change and sustainability - carbon tax cost.	We have made four submissions out of four without issue (and passed an Environment Agency Audit in 2011), giving a 100% success record. The 2014/15 return is progressing normally.	July 2015
2015/16.28	A Prosperous City	Potential for disruption to council services due to the need to transition to a new Banking Services provider with effect from 1/4/2015.	The banking transfer has been successfully concluded.	July 2015
2015/16.10a	A Prosperous City	Resolution of contractual issues in the Highway Maintenance & Management PFI contract.	A commercial settlement signed on18th December 2015, resolved a number of contractual issues.	March 2016
2015/16.29	A Fair City	Risk of Court deciding against the Council regarding the Homeless Service.	The High Court dismissed the four applications for Judicial Review.	March 2016
21 (old 35)	A Prosperous City	IT refresh / update.	The desktop refresh is progressing as business as usual, and PSN compliance means that we cannot have unsupported applications running on our network.	July 2016

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Strategic Director – Finance & Legal**
Date of Decision:	**22 November 2016**
Subject:	**ANNUAL AUDIT LETTER**
Wards affected: All	

1 Purpose

1.1 Each year, the Council's external auditors, Grant Thornton, are required to produce an Annual Audit Letter. This letter must be circulated to all members of the council. This Letter will be considered formally by Cabinet on 13 December 2016.

1.2 The external auditors have made a written recommendation to the Council under section 24 of the Local Audit and Accountability Act 2014, which requires the Council to consider the matter raised at a public meeting and publish its response. The recommendation will be considered and the Council's response agreed by Council at its meeting on 10 January 2017.

1.3 The timescale that the Audit Findings Report was produced to in September precluded a detailed response to the recommendations made by the external auditor in that report. These are now concluded and submitted for review and approval.

2 Decisions recommended:

2.1 To receive the Annual Audit Letter, attached as appendix 1 to this report.

2.2 To note the written recommendation, issued under section 24 of the Local Audit and Accountability Act 2014, contained within the Annual Audit letter.

2.3 To approve the management responses, attached as appendix 2, to the recommendations set out in the Audit Findings Report issued in September 2016.

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

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

3 Compliance Issues:

3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?:
The coverage of the Annual Audit Letter and actions highlighted in this report are consistent with the policy framework and budget. The preparation and approval of the Annual Audit Letter are statutory requirements.

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

3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014. The Code identifies the Annual Audit Letter as one of the means by which the auditor will discharge its responsibilities. The Annual Audit Letter is concerned with the council's management of all of its resources. Implications for finance, people, property and IT are set out in the body of the letter.

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):
These are set out in the Annual Audit Letter, which emphasises areas where the external auditor feels significant risks to the council exists.

4 Relevant background/chronology of key events:

4.1 The Annual Audit Letter is the statutory report by the council's external auditor, Grant Thornton, of its activities for the year. The Annual Audit Letter covers the external audit of the council's financial affairs, the council's financial standing, value for money and overall performance. A copy of the Annual Audit Letter to members is attached as appendix 1 to this report.

4.2 The external auditors have included a written recommendation, made under section 24 of the Local Audit and Accountability Act 2014, which states that the Council needs to:

- Ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17

- Demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by:

    - revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and

    - ensuring that all savings plans are assessed for both lead time to implement and delivery risk

- Re-assess the impact of the combined savings and budget pressure risks on the planned us of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.

4.3 The full Council is required to consider the written recommendation at a meeting held before the end of the period of one month of it being sent to the Council. This period may be extended with the agreement of the external auditor. Grant Thornton has agreed that it would be appropriate for the recommendation to be considered at the Council meeting on 10 January 2017.

4.4 At the meeting, the Council must decide:

- Whether the recommendation is to be accepted, and

- What, if any, action to take in response to the recommendation.

4.5 The Council, as soon as practicable after making any decisions as detailed in paragraph 4.4 above, must:

- Notify the Council's external auditor of those decisions, and

- Publish a notice containing a summary of those decisions which has been approved by the auditor.

4.6 The Audit Findings Report was considered by this committee on 12 September 2016 and the addendum to the Audit Findings Report is included in the agenda today. At the time of reporting to this committee, there had been no time to consider the management responses to the recommendations. There are now included as appendix 2 to this report for approval.

5 Recommendations

5.1 To receive the Annual Audit Letter (appendix 1 to this report).

5.2 To note the written recommendation made under section 24 of the Local Audit and Accountability Act 2014.

5.3 To approve the management responses to the recommendations set out in the Audit Findings Report.

Signature:

……………………………………………………………
Jon Warlow – Strategic Director – Finance & Legal

The Annual Audit Letter for Birmingham City Council

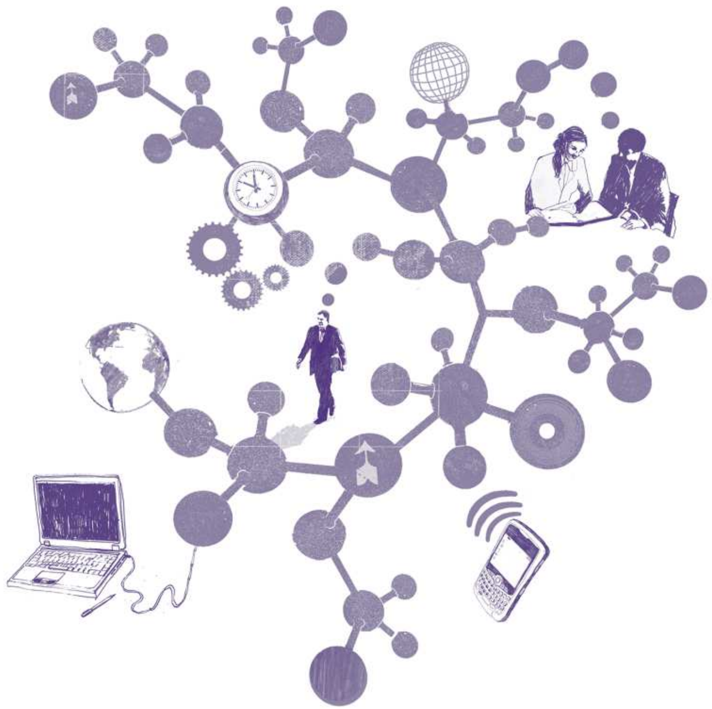
Year ended 31 March 2016

October 2016

Phil W Jones
Director
T021 232 5437
E phil.w.jones@uk.gt.com

Richard Percival
Associate Director
T 0121 232 5434
E richard.d.percival@uk.gt.com

Lorraine Noak
Manager
T 0121 232 5407
E lorraine.noak@uk.gt.com



Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Birmingham City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee, in our Audit Findings Report on 12 September 2016 with a final addendum on 29 September discussed with the Audit Committee chair under his delegated powers.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our responsibilities are to:

- consider whether we need to exercise any of our statutory powers under the Act (section one)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section two).
- give an opinion on the Council's financial statements (section three)

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Statutory recommendation

Our powers and duties under the Act include making written recommendations to the Council under section 24 of the Act. The Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them.

We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. Section one details our recommendation, the reasons why we are making the recommendation and what the Council needs to do to respond to the recommendation.

Value for money conclusion

We qualified our value for money conclusion on an 'except for' basis and issued it on 30 September 2016. This means we were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except for the following matters.

- Savings Challenge – due to the impact of non-recurrent savings in 2015/16 and the weaknesses in the Peoples Directorate's savings plan delivery
- Services for vulnerable children – due to the concerns reported by Ofsted following their monitoring visit and the continuing need for the Council to have external oversight of its arrangements by the Children's Commissioner
- Management of schools – due to Ofsted feedback indicating that there are significant governance issues in some schools and concerns reported by Ofsted on the pace of change
- Improvement Panel – due to continuation of the Panel's appointment.

We identified five key actions the Council needs to take from our value for money conclusion work. These are:

- Effective plans are put in place to respond to the under delivery of savings plans and emergent budget pressures, particularly in the People Directorate. These need to include a realistic assessment of the use of reserves to enable sufficient lead time for the savings plans to be implemented.
- Plans for services to vulnerable children, including the options for setting up a Children's Trust, need to deliver significant and measurable improvement promptly.
- The implementation of the Birmingham Education Delivery and Improvement Plan needs to demonstrate that the issues raised by Ofsted, including the children missing from education, are being addressed promptly and effectively.
- The pace of change and the impact of new political and corporate leadership arrangements need to demonstrate to the Improvement Panel that this intervention is no longer required.
- The Council and its health partners need to decide whether to reinstitute the joint commissioning board for the learning disabilities and mental health services pooled budget, or agree and implement alternative arrangements.

Section two summarises the significant risks we considered, and our findings and conclusions.

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 30 September 2016.

It is pleasing to report that we have seen further improvement in both the timeliness and quality of the accounts production process. We noted in particular that the information provided by group entities was delivered more promptly, enabling group accounts to be completed in line with the Council's accounts.

We worked closely with the Financial Accounts Team throughout the audit and we would like to express our gratitude and thanks for their hard work and support. From 2018 the statutory deadline for accounts production will be 31 May and the Financial Accounts Team is committed to delivering to this deadline in 2017. We will continue to work with the team to help embed the further process changes necessary to meet the earlier deadlines required in future.

The key issues we considered as part of our financial statements audit were as follows.

NEC and Grand Central - the disposal of the NEC in particular was a highly complex transaction requiring key judgements to be made about accounting treatment. We focused our attention on ensuring that the accounting treatment applied was consistent and reasonable. We agreed that a £67 million adjustment was needed to investments. This had no impact on the Council's usable reserves.

Going concern - we considered whether it was appropriate for the Council to prepare its accounts on a 'going concern' basis. We concluded that balances provide sufficient cover for the 12 months from our opinion date and there is no material uncertainty that the Council will continue as a going concern in this period.

Equal pay provision - during 2015/16 equal pay claims were settled and the value and volume of new claims reduced. The provision for equal pay claims decreased to £310 million at 31 March 2016. In previous years we have included an emphasis of matter paragraph in our opinion to draw attention to the risk of material misstatement of the equal pay provision due to uncertainty about the impact of court judgements, the potential for a high volume of claims and the outcomes of negotiating settlements. Although these are still risks, we do not now consider that these are significant enough to draw specific attention to them in our audit opinion.

Whole of government accounts

We completed our work on the Council consolidation return following guidance issued by the NAO and issued an unqualified report on 30 September 2016.

The completion of the whole of government accounts return is a significant task for the Finance Team due to the value and volume of transactions with other public bodies and the complexity of the Council's accounts. The pre-audit return was submitted by the deadline and appropriate amendments made following completion of the audit. We are grateful for the work carried out by the Finance Team on this.

Certificate

We certified that we had completed the audit of the accounts of Birmingham City Council in accordance with the requirements of the Code on 30 September 2016.

We were able to do this because:

- we had completed our audit of the financial statements and issued our audit opinion
- we had completed our value for money work and issued our value for money conclusion
- the whole of government accounts return had been submitted as we had completed our audit work on it
- there were no matters brought to our attention relating to objections to the accounts.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Other work completed

We also completed audits of the 2015/16 accounts of the following Council subsidiaries.

- Acivico Limited
- NEC (Developments) PLC
- Innovation Birmingham Limited
- PETPS (Birmingham) Limited
- Finance Birmingham Limited
- Marketing Birmingham Limited

Working with the Council

We have met regularly with Strategic Directors to inform our value for money conclusion work. We have also been briefed by the Improvement Panel on their work with the Council.

We have continued to work with the Finance Team constructively throughout the year. This has included commenting on and supporting plans for earlier closedown and improvements to closedown processes. We have met regularly with the team to discuss emerging technical issues such as the impact of changes in financial reporting requirements.

We have provided a range of training and other events that officers have attended. These include technical accounting workshops as well as seminars on Better Care Fund and Joint Ventures. Three of the Council's Finance Team are currently participants in our Opportunity West Midlands programme which we are running for a number of local authorities.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
November 2016

Statutory recommendation

Recommendation made under section 24 of the Local Audit and Accountability Act 2014

The Council needs to:

- ensure that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17

- demonstrate that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by:
  - revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17; and
  - ensuring that all savings plans are assessed for both lead time to implement and delivery risk

- re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

Reasons for making the recommendation

The scale of the Council's financial pressure and the savings delivery challenge is unprecedented. We are satisfied that there are sufficient balances to cover under delivery in the short term this capacity is limited, but are concerned that if the Council does not take effective action to bring its savings programme back in line there will be insufficient balances to manage its financial risks effectively from 2017/18 onwards.

It is essential that the Council takes prompt action to bring its savings delivery back in to line with its overall four year plan as rapidly as possible.

Statutory recommendation

Savings plan delivery in 2016/17

The Council identified in its Business Plan 2016+ an overall savings challenge of over £251 million to be delivered in the four years to 2019/20. We reviewed savings delivery as part of our value for money conclusion work and concluded that there were weaknesses in the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities (see section 2).

The Business Plan 2016+ savings for 2016/17 total £88.2 million. This has increased to £123.0 million due to £34.8 million of one-off savings brought forward that need to be replaced with recurrent savings in 2016/17.

When we carried out our value for money conclusion work information on financial performance up to May 2016 was available. Since we completed our work two further financial monitoring reports have been produced and reported to Cabinet, summarising the position and forecast at July and August 2016.

The latest revenue monitoring report (to August 2016) reports that of the £123.0 million required savings for the year:

- £37.9 million are not deliverable
- £26.0 million have actions in place but some risk to delivery
- £20.8 million have actions in place to achieve savings in year only.

The net forecast budget under delivery for 2016/17 is £37.6 million if no further actions are taken and the alternative savings proposals are fully delivered. The savings identified as 'actions in place but some risk to delivery' include £13.0 million of funding from Health partners predicated on delivery of their financial control totals. There is a continuing risk that the value of one-off savings will increase during 2016/17.

We have noted that the savings plan under delivery and budget pressures are most severe in the People Directorate, largely due to the non-delivery of adult social care service redesign savings and budget pressures relating to adult social care, deprivation of liberty safeguards and homelessness. We have also noted that there is a further £13 million of social care funding included in the forecast 2016/17 position which is at risk. It is clear that the People Directorate is not able to find sufficient alternative schemes to make good the shortfall in its original savings programme and absorb its budget pressures in 2016/17.

We have previously reported that budget monitoring arrangements have been strengthened and there is an intense focus from Corporate Leadership Team and Cabinet on actions to find alternative savings. This includes fortnightly 'challenge' meetings with People Directorate leads involving both the Cabinet member for Health and Social Care and the Deputy Leader. We recognise that this is a major management pressure for the Council and it is essential that there is commitment across the Council to deliver the maximum amount of alternative savings in 2016/17.

We have therefore recommended that the Council:
ensures that there is Council-wide commitment to delivering alternative savings plans to mitigate the impact of the combined savings and budget pressure risks in 2016/17.

Statutory recommendation

Savings plan delivery from 2017/18 onwards

The Business Plan 2016+ cumulative savings programme total of £251.2 million over the four year period 2016/17 to 2019/20 is equivalent to 30 per cent of the 2016/17 net revenue budget. The 2016+ savings programme has a high dependency on the People Directorate, with £120.6 million (48 per cent) of the total savings requirement coming from savings schemes within the People Directorate.

The People Directorate savings plan includes £60 million to be delivered in three years, by 2018/19. This savings programme is based on the joint re-design of adult social care services with Health partners. The first year savings of £28 million have not been delivered and there is a high level of uncertainty about how much of the cumulative savings will be delivered.

It is clear from latest 2016/17 revenue monitoring report that the People Directorate has a high value of savings not deliverable (£28.3 million) and actions in place but some risk to delivery (£26.0 million). However, other directorates also have significant savings delivery issues.

- The Place Directorate has identified £8.1 million of agreed savings as not deliverable (32 per cent of the Directorate total savings targets for 2016/17)
- The Economy Directorate has identified £4.4 million of agreed savings as actions in place to achieve savings in year only and a further £1.8 million as either some risk to delivery or not deliverable (in total 81 per cent of the Directorate's agreed savings programme)
- Corporate Resources has identified £15.3 million of savings as actions in place to achieve savings in year only (54 per cent of the agreed Corporate Resources savings programme).

We have concluded that the savings programme agreed as part of the Business 2016+ is not delivering the required level of cumulative recurrent savings, and this is a problem across the Council's Directorates. The savings programme requires re-profiling from 2017/18 onwards to identify how the overall £251 million requirement will be delivered by the end of 2019/20.

Savings plans included in the 2016+ Business plan have either taken longer to deliver than anticipated and/or have failed to deliver the anticipated level of savings. The revised 2017+ savings plan needs to include a reassessment of delivery lead times for current and revised savings plans and savings delivery profiled in line with this. In our view the risk of non-delivery of savings schemes needs to be clearly assessed as part of the overall savings programme development to enable a clearer view to be taken on the likelihood and nature of alternative actions that might need to be taken.

We have therefore recommended that the Council:

demonstrates that it is implementing achievable actions to deliver its cumulative savings programme in the Business Plan 2017+, by:

- ***revising savings programme from 2017/18 onwards to reflect the delayed or non-delivery of savings plans in 2016/17 ;and***
- ***ensuring that all savings plans are assessed for both lead time to implement and delivery risk***

Statutory recommendation

Impact on reserves

As at the 31 March 2016 the Council had a General Fund balance of £110.9 million. This included an 'Organisational Transition Reserve' balance of £72.8 million. The Business Plan 2016+ identifies that £12.7 million of this balance is planned to be utilised against the 2017/18 budget, leaving £60.1 million available as a risk contingency against delays in transformational change.

It is now highly likely that some of this risk contingency will be needed in 2016/17 to balance the under delivery of savings programmes and unplanned budget pressures. We have also noted that:

- one off savings brought forward in to 2016/17 need to be converted to recurrent savings
- there is £13 million of social care funding included in the forecast 2016/17 position which is at risk
- the revised forecast deficit position for 2016/17 of £37.6 million assumes that all alternative savings plans will be fully delivered in year.

Under delivery of any of these will have an adverse impact on the amount of reserves utilised in 2016/17.

There is limited capacity for the Council to use balances in future years and every effort needs to be made to minimise the use of balances in 2016/17.

We have therefore recommended that the Council:

re-assess the impact of the combined savings and budget pressure risks on the planned use of reserves in 2016/17 and the impact of this on the reserves position from 2017/18 onwards.

What does the Council need to do next?

The Act requires the Council to:

- consider our recommendation at a meeting held within one month of the recommendation being sent to the Council; and
- at that meeting the Council must decide:
  (a) whether the recommendation is to be accepted, and
  (b) what, if any, action to take in response to the recommendation.

Following the meeting the Council needs to notify us, as the Council auditors, of its decisions and publish a notice containing a summary of its decisions which have been approved by us.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall VfM conclusion

We issued an 'except for' qualified value for money conclusion in our audit opinion on 30 September 2016.

We concluded that we were satisfied that, in all significant respects, except for the matters we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

The qualification issues we identified were:

- Savings Challenge – due to the impact of non-recurrent savings in 2015/16 and the weaknesses in the Peoples Directorate's savings plan delivery
- Services for vulnerable children – due to the concerns reported by Ofsted following their monitoring visit and the continuing need for the Council to have external oversight of its arrangements by the Children's Commissioner
- Management of schools – due to Ofsted feedback indicating that there are significant governance issues in some schools and concerns reported by Ofsted on the pace of change
- Improvement Panel – due to continuation of the Panel's appointment.

Key findings and recommendations

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out in table 2 overleaf.

We made the following recommendations to address our findings.

The Council needs to ensure:

- Effective plans are put in place to respond to the under delivery of savings plans and emergent budget pressures, particularly in the People Directorate. These need to include a realistic assessment of the use of reserves to enable sufficient lead time for the savings plans to be implemented.
- Plans for services to vulnerable children, including the options for setting up a Children's Trust, need to deliver significant and measurable improvement promptly.
- The implementation of the Birmingham Education Delivery and Improvement Plan needs to demonstrate that the issues raised by Ofsted, including the children missing from education, are being addressed promptly and effectively.
- The pace of change and the impact of new political and corporate leadership arrangements need to demonstrate to the Improvement Panel that this intervention is no longer required.
- The Council and its health partners need to decide whether to reinstitute the joint commissioning board for the learning disabilities and mental health services pooled budget, or agree alternative arrangements.

Value for Money conclusion

Risk identified	Findings and conclusions
Savings challenge The Council has identified an overall savings challenge of over £251 million to be delivered in the four years to 2019/20. The five largest savings schemes proposed over the period account for just under half of the savings target. They are challenging and include health and social care service redesign, efficiency improvements and workforce changes. The key risk is that these schemes will not deliver the required recurrent savings, or will take longer to implement than planned.	**We concluded that there were weaknesses in the Council's arrangements that relate to the adequacy of the financial planning VfM criteria as part of sustainable resource deployment.** The Council reported a 2015/16 revenue budget underspend of £2.8 million on a net revenue budget of £874.5 million. This included the delivery of a £110.3 million savings programme. Delivery of the budget and a savings programme of this scale was a notable achievement. There was however a significant dependence on non-recurrent savings to do this. The Council's Business Plan 2016+ identifies continuing savings pressures, with a requirement of £251.2 million of savings to be delivered by the end of 2019/20; 2016/17 (£88.2 million) and 2017/18 (£75.1 million) are the two years with the greatest savings demand. The Business Plan includes a detailed analysis of savings schemes across the four year period. We focused our work on the delivery risks for the major savings schemes. We reviewed financial performance reported to Cabinet in July 2016. This identified more severe financial pressures than anticipated due to £51.6 million of savings actions not in place and the emergence of £11.6 million of budget pressures. The largest savings programme is £60 million relating to health and social care service redesign and Better Care Fund funding. Of this, £28 million was due to be delivered in 2016/17. This savings programme assumed that funding would be released by central government and health partners would direct this to the Council. This has not happened for 2016/17 and there is uncertainty about how much of this funding the Council will receive in the following two years. Savings of £14.8 million were also planned from the redesign of adult social care packages which are not being realised and budget pressures of £7.1 million identified for adult social care provision. We identified in our initial risk assessment that the key risk was that the major savings schemes will not deliver the required recurrent savings, or will take longer to implement than planned. The £34.8 million shortfall in recurrent savings brought forward from 2015/16 and the delivery difficulties with the largest savings scheme in 2016/17 means that this risk is not sufficiently mitigated. In our view savings planning arrangements did not sufficiently take into account the impact of the level of non-recurrent savings or adequately assess the vulnerability of the largest proposed savings scheme.

Value for Money conclusion

Risk identified	Findings and conclusions
Services for vulnerable children The Council's services for vulnerable children are assessed as inadequate by Ofsted and subject to an Improvement Notice. The Secretary of State has appointed a second Children's Commissioner. The key risk is that the service does not show demonstrable improvement and continues to be subject to external intervention.	**We concluded that there were weaknesses in the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, and planning, organising and developing the workforce effectively to deliver strategic priorities** The Secretary of State appointed Andrew Christie as the Council's Children's Commissioner in December 2015. He is the second post holder and was appointed as the Council was not performing to an adequate standard and meeting all of its responsibilities under the Education Act 1996 and the Children's Act 2004. The Council was subject to an Ofsted monitoring visit in early June 2016 which focussed on safeguarding arrangements in schools, children missing from education, children being educated at home and the application of the Prevent agenda in schools. The inspector identified 13 areas where the Council was found to be underperforming. Ofsted's full inspection is likely to report by December. It is clearly important that the Council can demonstrate sufficient improvement to be assessed as adequate. The Council announced in May 2016 its intention to investigate a children's trust model as part of its improvement planning. A report was presented to Cabinet in July 2016 supported by a 'case for change' analysis. An appraisal process and timetable was agreed at that meeting. At its September 2016 meeting Cabinet agreed the draft scope of the proposed Trust and agreed that both the wholly owned company and employee owned mutual would proceed to the design phase. The Trust service scope and delivery option and its governance arrangements will be reported to Cabinet in January 2017. We identified in our initial risk assessment that the key risk was that services for vulnerable children do not show demonstrable improvement and continue to be subject to external intervention. The findings of the Ofsted monitoring report and the continuation of external intervention by the Children's Commissioner means that this risk is not sufficiently mitigated.

Value for Money conclusion

Risk identified	Findings and conclusions
Management of schools The Council's management of the governance of schools was found to be weak and an Education Commissioner was appointed by the Secretary of State. This appointment is continuing and the Birmingham Education Partnership (BEP) has responsibility for implementing the improvement plan. The key risk is that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed.	**We concluded that there were weaknesses in the Council's arrangements to manage risks effectively and maintain a sound system of internal control, demonstrating and applying the principles and values of good governance, as part of informed decision making and planning, organising and developing the workforce effectively to deliver strategic priorities as part of strategic resource deployment.** The Birmingham Education and Schools' Strategy and Improvement Plan (2015-16) was subject to an LGA peer challenge which reported to the Council in December 2015. The peer challenge considered five work streams. Its findings included the following. • The Council has made good progress across the five work streams • There is confidence amongst members, officers and partners that the basics for strong effective city wide system of school improvement • Stronger professional leadership is making a significant impact and governance is now high on the agenda • The Birmingham Education Partnership (BEP) is widely regarded as the right vehicle for school improvement and has good buy-in from schools. These findings are not wholly consistent with the Ofsted monitoring visit findings, which indicated that there are continuing and serious weaknesses in the management of schools. In particular, arrangements for ensuring children with special educational needs receive full time education, weak links with independent schools and ensuring appropriate suitability checks are carried out for potential governors of schools not maintained by the Council. As part of the assessment of schools governance improvement Birmingham Audit (internal audit) have been commissioned to carry out a programme of audits over a two year period. Their findings so far have shown that there are a range of governance issues to address across the schools visited (approximately a third of all Birmingham schools). We identified in our initial risk assessment that the key risk was that plan implementation will be slower than envisaged and underlying issues will not be effectively addressed. Although it is clear that progress has been made with the establishment of the BEP and the implementation of the improvement plan there is still work to do. The pace of school improvement is the key issue affecting our judgement.

Value for Money conclusion

Risk identified	Findings and conclusions
Improvement Panel The Improvement Panel has been in place since January 2015, following the publication of Lord Kerslake's report on the Council's governance. The Panel has reported to the Secretary of State on the progress made by the Council, but has also noted its concerns. The key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed.	**We concluded that the Panel's continuing engagement is evidence of significant failings in governance arrangements as part of Informed Decision Making.** The Panel wrote to the Secretary of State in November 2015, January 2016 and March 2016. The Panel's March 2016 letter referred to the positive improvement that the change in political leadership was having, the strengthening of corporate leadership and the Council's gap analysis of what it needs to do in the next six months. The Panel noted that: "…., much has been done, progress continues to be made, the pace of change is picking up, but the required impact is not yet sufficient. The Panel is hopeful about the prospects for further improvement, but the robustness, resilience and sustainability of the Council's progress is yet to be evidenced." The Panel's letter also refers to the development of the long term financial strategy and raises concerns about the scale and nature of the 2017/18 savings plans in particular. The letter concludes: "….., the Panel believes it would now be appropriate for the political and managerial leadership to be given the chance to work together and demonstrate the Council's ability to deliver the actions outlined in the Council's recent gap analysis, without the current level of intervention. The Panel therefore considers it should stand back for a period, undertaking a review of further progress in the autumn, drawing again on feedback from residents, partners, elected members and staff." The Secretary of State agreed to this course of action in his response. We identified in our initial risk assessment that the key risk is that the Panel will conclude that the Council is not making sufficient progress in implementing the changes needed. We have considered whether the stepping back of the Panel is sufficient for us not to qualify our VfM conclusion. In our view it is not. The Panel was fully engaged with the Council during 2015/16 and it is yet to conclude that sufficient progress has been made in implementing the changes needed.

Value for Money conclusion

Risk identified	Findings and conclusions
Health and Social Care funding The Council has a good track record of controlling health and social care spend and has extensive partnership arrangements with Health bodies. Delivery of service outcomes is dependent on effective partnership working with Clinical Commissioning Groups. The key risk is that partnership arrangements do not fully deliver service outcomes and improvements.	**We concluded that the risk was sufficiently mitigated and the Council has adequate arrangements to deliver service outcomes and improvements.** We considered the governance arrangements for the Better Care Fund and other pooling agreements. In particular, the clarity of lines of accountability to the Council. We also considered the risk sharing arrangements in place and the partnership arrangements. The Birmingham Better Care Fund totals £100 million for 2015/16 with contributions from the Council and its Health partners. The main decision making forum for the Better Care Fund is the 'Commissioning Executive'. Whilst our work has shown that the governance of the fund is operating effectively and appropriately it is clear that the partnership has not achieved the forecast efficiencies. This is indicative of the weaknesses nationally in the fund implementation. The Council also works with its Health partners through the Learning Disabilities and Mental Health pooled budget. The Council contributed £93.0 million of the total pooled spending of £259.3 million in 2015/16. We found that the joint commissioning board ceased operating in April 2015. This means that there has been inadequate reporting of performance or financial information to all pooled budget members collectively. We are not aware of any plans to address this. We identified in our initial risk assessment that the key risk is that partnership arrangements do not fully deliver service outcomes and improvements. We have noted that the Better Care Fund has not fully delivered due to weaknesses in national implementation. We have also considered the impact of the failure maintain the joint commissioning board for the pooled budget. The lack of oversight has resulted in ineffective working with third parties and needs to be rectified. However, we have seen no evidence that service outcomes and improvements have not been delivered

Value for Money conclusion

Risk identified	Findings and conclusions
Future Council The programme is ambitious and extensive. It has five work streams and it is essential that delivery is effectively managed. The key risk is that deliverables are not clearly identified, project and risk management arrangements are not effective, and as a result changes are not implemented as intended.	**We concluded that the risk that deliverables are not clearly identified, and that project and risk management arrangements are not effective was sufficiently mitigated by the arrangements in place during phase one of the programme.** The Future Council programme has now moved to its second phase. A Programme Transition Report was presented to Corporate Leadership Team in June 2016. This identified the key outcomes of the first phase and the objectives and approach for the second phase. The report highlights the outcomes achieved, but also notes that there is outstanding activity to be carried forward to phase two. It also notes that the programme governance was thoroughly thought through and generally worked well. Performance against 134 key actions derived from the Kerslake report were tracked and the report identifies that 109 of these were delivered by June 2016. There is also a clear focus on risk management. A briefing document was sent to all staff on the 26 July 2016, providing an outline of the progress made with the Future Council Programme and how it is being developed. This includes five key outcomes from phase one and eight areas where improvements are still needed. Four supporting programmes for phase two; creating an improvement hub, developing the people strategy, implementing the IT and digital strategy and designing services from a citizen perspective through the citizen access strategy. A clear project management structure is outlined, with the establishment of a programme management office. This will have a key role in ensuring that the Council's leadership is clearly sighted on progress and risk management.
Equal Pay The Council has a settlement plan for Equal Pay claims that is dependent on utilising capital receipts. The key risk is that there will be insufficient resources available to meet these commitments.	**We concluded that the receipt of funds from asset sales and the continuing fall in the Council's equal pay liability contribute to sufficient resources being available to meet the Councils equal pay commitments**. We reviewed the settlement plan and are satisfied that the capital receipts generated are sufficient to meet the Council's anticipated equal pay commitments. During 2015/16 over £200 million of claims have been settled resulting in a reduced provision in the 2015/16 financial statements of £310 million. In previous years there has been greater uncertainty about the extent of the Councils liabilities for the claims as this is dependent on complex law against the particular circumstances at each authority. As more local cases have been settled and information about claims has become clearer, the extent of the Councils liability can be determined with greater certainty.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 30 September 2016.

There were further improvements in the production of the accounts. We received draft financial statements on 13 June 2016 more than two weeks in advance of the statutory deadline. The draft accounts were well presented. The delivery of working papers was also improved compared to previous years. Most were available at the commencement of our audit, and the remainder were delivered in accordance with the agreed timetable.

From 2018 the statutory deadline for accounts production will be 31 May and the Financial Accounts Team is committed to delivering to this deadline in 2017. We will continue to work with the team to help embed the further process changes necessary to meet the earlier deadlines required in future.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 12 September 2016 and provided an updated addendum to the Audit Findings Report to the chair of the audit committee under delegated powers on the 29 September 2016. The addendum concerned the accounting treatment of the Council's investment in NEC (Developments) PLC, and is summarised below.

The key comments arising from our audit of the Council's financial statements concern:

- the accounting and disclosures relating to the disposal of the NEC and Grand Central
- our consideration of the going concern assessment
- the equal pay provision

NEC and Grand Central - the disclosures relating to these disposal transactions have been challenging for the Council due to the sensitive nature of these commercial transactions. Our initial review of the draft accounts concluded that there were insufficient disclosures of these two highly material transactions to meet the requirements of the Local Authority Accounting Code and IFRS (International Financial Reporting Standards). We discussed our concerns about the disclosures and amendments were made to both the narrative report, notes to the accounts and the group accounts. Our review of the amended accounts identified an issue with the accounting treatment of the Council's £67 million investment in NEC (Developments) PLC. We concluded that this should be impaired and the accounts were adjusted to reflect this. These changes did not have any impact on the Council's General Fund reserves as at 31 March 2016, or on the Council's continuing obligation with respect to the £73 million loan debt.

Going concern - we considered whether it was appropriate for the Council to prepare its accounts on a 'going concern' basis. In forming this view we consider the Council's forecast financial position for 12 months from the date of our audit opinion. We concluded that:

- the capital receipts generated by asset sales, including the NEC and Grand Central are sufficient to meet current equal pay obligations
- balances provide sufficient cover for any shortfall in savings delivery in the 12 month period but we emphasise that we are not expressing an opinion that balances should be used for this purpose and stress the importance of the actions currently being taken by the Council to respond to the savings challenge.

Audit of the accounts

Equal pay provision – the provision for equal pay claims decreased to £310 million at 31 March 2016 due to the settlement of existing claims and a reduction in the value and volume of new claims reduced. In previous years we have included an emphasis of matter paragraph in our opinion with regard to the Council's equal pay liability, due to the difficulties in accurately estimating equal pay liabilities. We did not include this in this year's audit opinion. Although these are still risks with regard to equal pay claims and settlement, we do not consider that these are significant enough to draw specific attention to them in our audit opinion.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We noted in our Audit Findings Report that:

- the management of schools had not been included as a significant governance issue in this year's Annual Governance Statement; and
- group governance arrangements were not referred to in the Annual Governance Statement.

Both the Annual Governance Statement and the Narrative Report were published on the Council's website with the draft accounts in line with the national deadlines.

Whole of Government Accounts
We completed our work on the Council consolidation return following guidance issued by the NAO and issued an unqualified report on 30 September 2016.

The completion of the whole of government accounts return is a significant task for the Finance Team due to the value and volume of transactions with other public bodies and the complexity of the Council's accounts. The pre-audit return was submitted by the deadline and appropriate amendments made following completion of the audit. We are grateful for the work carried out by the Finance Team on this.

Our audit approach

Materiality
In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £45,126,000, which is 1.5 per cent of the Councils gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

Audit of the accounts

We also:

- set a lower level of specific materiality for certain areas such as cash and senior officer remuneration-and exit packages and auditor remuneration; and
- set a threshold of £2,256,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. **This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.**	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Birmingham City Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable **We did not identify any issues to report**
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We: • reviewed entity level controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions **We did not identify any evidence of management over-ride of controls and our review of journal controls and testing of journal entries did not identify any significant issues**
Sale of the NEC and Grand Central Risk that complex accounting entries are not correctly posted in the accounts	We: • gained an understanding of the transactions including a review of supporting documentation • tested transactions in the financial statements to ensure they were consistent with our understanding including the elimination of lease/investment arrangements and sale proceeds • reviewed accounting entries including the treatment of sale proceeds to ensure they complied with the requirements of the CIPFA Code of Practice **We concluded that the Council's investment in NEC (Developments) PLC should be impaired and a £63 million adjustment from long term investments to unusable reserves was made. We also concluded that further disclosures relating to the sale of both the NEC and Grand Central were needed and these were included in the final version of the accounts. We considered the Grand Central profit share payment of £72.9 million, disclosed as an exceptional item and concluded that the payment was in accordance with the agreement with Network Rail.**

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
Actuarial Valuation of LGPS pension liability Under ISA 540 (Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty give rise to a significant risk.	We: • documented the key controls put in place by management to ensure that the pension fund liability was not materially misstated • walked through these key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements • reviewed the professional competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • gained an understanding of the basis on which the IAS 19 valuation was carried out, and carried out procedures to confirm the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary **We did not identify any issues that we need to bring to your attention.**
Equal Pay Provision Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures), the auditor is required to make a judgement as to whether any accounting estimates with a high degree of estimation uncertainty give rise to a significant risk.	We: • reviewed of the assumptions on which the equal pay provision estimate was based • considered events or conditions that could change the basis of estimation • checked the calculation of the estimate • confirmed that the estimate was determined and recognised in accordance with accounting standards • considered how management assessed estimation uncertainty and the potential impact of subsequent transactions **On the basis of our work, we concluded that the level of estimation uncertainty does not present material estimation uncertainty to the provision included in the accounts.**
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We: • reviewed management's processes and assumptions for the calculation of the valuation estimate, including the instructions issued to valuation experts and the scope of their work • discussed with the valuer the basis on which the valuation was carried out • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year **The valuer's report for both HRA and General Fund land and buildings was as at 1 April 2015. To ensure that the valuation was not materially misstated as at 31 March 2016 the valuer reviewed the potential movement in values during the year. This resulted in an increase of £38.5 million for assets revalued in 2015/16, and £164.3 million for assets not revalued during 2015/16.**

Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
Better Care Fund Risk that transactions are not accounted for correctly	We: • obtained an understanding of the nature of any Better Care Fund agreements in place, and documented the control environment. • reviewed the accounting treatment of significant agreements • agreed the accounting entries and disclosures in the financial statements **Our audit work did not identify any issues regarding accounting treatment that we wished to bring to your attention.**

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have an established a positive and constructive relationship with key officers and the Audit Committee. Some of the ways we have worked together are summarised below.

Audit efficiency – we worked closely with the Finance Team throughout the year and this enabled us to carry out more work at the interim stage of our audit before the accounts are produced. We had regular briefing meetings with the team throughout the audit, making sure that they were fully aware of any audit issues. We recognise that we still have work to do to further improve our audit efficiency and two key actions are to bring more audit work forward to our interim visits and ensure the prompter clearance of technical issues.

Understanding your operational health – through the value for money conclusion work we provided you with a clear statement on your operational effectiveness and highlighted the key actions you need to take on:

- savings plan delivery
- improving services for vulnerable children
- responding effectively to issues raised by Ofsted
- demonstrating to the Improvement Panel that they can fully disengage
- re-establishing effective governance arrangements for joint commissioning through pooled budgets.

In forming our view we have consulted widely with the Chief Executive, Strategic Directors, other key officers, and the Leader and Deputy Leader. We have also had regular discussions with the current and former Audit Committee Chairs. It is also important that we take into account the views of other external agencies. We have had meetings with the Council's Children's Commissioner and regular briefings with the Vice Chair of the Council's Improvement Panel.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee effectiveness review, Making devolution work, Reforging local government. We have shared our publication on Building a successful joint venture and officers attended the supporting workshops which provided insights from a range of practitioners. We will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training and supporting development – we provided your teams with training on financial accounts and annual reporting. We also hosted a Better Care Fund workshop which enabled your Finance Team to work with colleagues in partner organisations and implement a consistent approach.

Providing information – we provided you with a demonstration of CFO insights, our online analysis tool. This gives you insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Working with the Council

Working with you in 2016/17

Operational issues - responding to our statutory recommendation
The Council is in a challenging position and we have made clear in our statutory recommendation the actions needed. We will review your progress with delivering these and report on progress to the Audit Committee.

We will continue to meet frequently with senior management, members and the Improvement Panel to ensure that we understand the key issues you are tackling and the progress you are making.

Accounts and audit delivery - change in the statutory deadline
The statutory deadlines for accounts and audit delivery change in 2018 to the end of May for accounts and the end of July for the audit. We will continue to work with the Financial Accounts team to help embed the further process changes necessary to meet the earlier deadlines required in future.

Accounting issues - Highways Network Asset
The Code of Practice on Local Authority Accounting requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. This is a major change from the current approach of accounting on a depreciated historic cost basis.

The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset, which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets have always been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost to DRC. This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

The nature of these changes means that finance officers need to work closely with colleagues in the highways section and potentially also to engage other specialists to support this work. Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with you. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	314,168	314,168	418,890
Audit of subsidiaries			
Acivico Limited	37,500	37,500	Nil
Innovation Birmingham Limited	22,500	22,500	19,000
NEC (Developments) PLC	10,000	10,000	Nil
PETPS (Birmingham) Limited	7,500	7,500	Nil
Finance Birmingham Limited	6,800	6,800	6,600
Marketing Birmingham Limited	13,750	13,750	10,550
Subsidiaries total	98,050	98,050	36,150
Housing Benefit Grant Certification	17,594	TBC	29,600
Total fees (excluding VAT)	**429,812**	**TBC**	**484,640**

Fees for other services

Service	Fees £
Audit related services:	
Certification of grant claims (outside PSAA requirements)	16,700
Non audit related services:	
Finance Birmingham – operational support	22,215
Innovation Birmingham – tax advice	6,400
Marketing Birmingham – tax advice	1,315

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Grant Thornton

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
	Accounts			
1	Narrative Report – the draft report did not include sufficient commentary on the two major material disposals that had taken place during the year. For future years it is important to ensure that there is sufficient narrative about redevelopment schemes such as the Paradise project	Medium	Comments noted. Care had to be taken regarding the commercial sensitivities of the deals and the potential future implications that they may have had on joint working. In future, earlier discussions will be entered into with partners to consider the form of financial reporting.	Head of City Finance – Final Accounts March 2017
2	Major schemes, supporting information – during our audit we became aware that key information relating to the NEC and Grand Central disposals had not been shared with the Final Accounts Team when they were preparing the accounts. Key information relating to the Paradise project and other major schemes needs to be provided to the Financial Accounts Team to enable them ensure that the accounting treatment adopted is appropriate.	High	Regular meetings are held with finance colleagues as part of the preparation for the closure of accounts. These meetings include those finance staff supporting project managers. The guidance for the closure of accounts will be strengthened in respect information to be provided on activities undertaken in collaboration with external bodies so that an assessment of the financial implications can be determined.	Head of City Finance – Final Accounts March 2017

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
3	Annual Governance Statement – we noted that group governance arrangements were not included in the AGS. In future the AGS should include narrative on group governance arrangements.	Medium	A Group Executive Committee was approved by Cabinet in July 2016. It is a sub-committee of Cabinet and has been formed to oversee the Council's engagement with companies in which it has a financial interest. The Constitution was revised in September 2016 to reflect the change in the Council's committee structure. This change, along with the group governance arrangements will be included within the 2016/17 Annual Governance Statement.	Head of City Finance – Final Accounts March 2017
4	IT internal controls – a control weakness relating to the automation of leaver notification was reported to IT management. Management need to ensure that our recommendation is implemented by Service Birmingham.	Medium	HR do provide lists of leavers, however the current lack of a single record for all employees regarding what IT they hold means that it has not previously been possible to automate this. Closing the Active Directory Domain Management (ADDM) account does mean that the individual employee would not have access to wider systems. There is currently a review of the end to end Starters, Leavers and Movers (SLAM) processes for IT underway and a single record for all employees is being proposed and a business case	Intelligent Client Function Interim Review of progress – March 2017

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
			developed. Once this is in place, a more automated process will be possible.	
5	Group accounts, entity accounts – group accounts are drafted using unaudited financial information provided by group entities. In future the Audit Committee need assurance that group entities provide sufficient information by the end of May to ensure materially accurate group accounts can be produced and that audited accounts are received before the completion of the Council's audit.	Medium	The group entities provided information for the preparation of the 2015/16 accounts in a more timely manner than in previous years. There is regular dialogue with group entities to ensure that they are aware of the shortening timescale within which the financial statements have to be produced. The Council has set up a sub-committee of Cabinet, Group Company Governance that has included, in its terms of reference, responsibility for: • Holding entity boards to account • Oversight of compliance • Receiving and reviewing entity performance reports. The first meeting of the sub-committee was held on 9 November 2016.	Assistant Director – Financial Services March 2017

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
	Value for Money Conclusion			
6	Savings challenge – effective plans need to be put in place to respond to the under delivery of savings plans and emergent budget pressures, particularly in the People Directorate. These need to include a realistic assessment of the use of reserves to enable sufficient lead time for savings plans to be implemented.	High	The Mid-Year Review included a realistic assessment of the deliverability of the savings programme. This was always considered to be challenging, and the Council had established the Organisational Transition Reserve as an explicit risk management contingency. The on-going implications of the Mid-Year Review are being taken into account in the financial planning process for 2017/18 onwards. This will include the preparation of robust implementation and consultation plans. Account will be taken of the lead times in delivery the necessary service changes.	Assistant Director (Financial Strategy) December 2016
7	Services for vulnerable children – the Council needs to demonstrate how the plans for services to vulnerable children, including the options for setting up a Children's Trust, will deliver specific and measureable improvements promptly.	High	Early Help and Children's Social Care (EHCSC) are focused on improving practice for children and families in need. A number of issues have been addressed over the last 2 years including stabilising the workforce through an improved HR offer, investing to fill funding deficits, and putting in place a clear operational	Executive Director for Children's Services March 2018

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
			model so that children and families receive the right proportionate response dependent on their needs. The building blocks are now in place and progress is being made (see Ofsted inspection October 16) but there is still a long way to go to ensure good consistent practice with no undue delay and strong management oversight. The Children's Trust would give EHCSC operational independence to be a more fleet of foot and less bureaucratic organisation, more focused on delivering good outcomes for children within available resources.	
8	Management of schools – the implementation of the Birmingham Education Delivery and Improvement Plan needs to demonstrate that the issues raised by Ofsted, including children missing from education, are being addressed promptly and effectively.	High	The Schools, Children and Families Overview and Scrutiny Committee on the 12th October 2016, received a briefing paper on the significant actions taken to address issues identified by HMI in June 2016. The improvements have been achieved through a new management structure, amended policies, a robust dataset, improved practice informed by data analysis and multi-agency working. It is now possible to provide	Assistant Director – Education and Skills January 2017

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
			an accurate overview of the number of Children Missing Education and the systems undertaken to identify their whereabouts.	
9	Improvement Panel – the Council needs to demonstrate to the Improvement Panel that the pace of change and the impact of new political and corporate leadership arrangements are sufficient to address the concerns previously raised by the Panel.	High	In its most recent letter to the Secretary of State, published on 9 November 2016, the Birmingham Independent Improvement Panel recognised that the Council has made progress in addressing many of its own improvement priorities and handled effectively some unexpected external events and challenges. The Panel also noted that focused activity has enabled the Council to further address some of the outstanding recommendations from Lord Kerslake's review. In the progress report that the Council prepared to assist the Panel to make its assessment, the Council identified the development of a robust medium-term financial strategy as its top priority. The Panel's letter notes the extremely challenging circumstances facing the council as it seeks to do so and observes that the Leader,	Chief Executive March 2017

Rec No.	Recommendation	Priority	Management Response	Implementation Date & Responsibility
			Cabinet Members and Chief Executive have demonstrated that they are actively engaged in joint working to understand and grip the full challenge. The Panel and the council are co-commissioning an independent review of the 2017/18 budget and long term financial plan with a particular focus on the quality and robustness of its delivery plans for 2017/18 across all areas of expenditure.	
10	Health and social care – the Council and its health partners need to either reinstitute the joint commissioning board for the learning disabilities and mental health services pooled budget, or agree alternative arrangements.	High	A process is underway to develop alternative boards to oversee the Section 75 agreements. We are developing separate agreements for Learning Disabilities service users and Mental Health services users so that we can concentrate on the specific requirements of the different client groups. The process will be complete and in place during the 16/17 financial year.	Assistant Director – Commissioning March 2017

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**	***Exempt information paragraph number – if private report:***
Report of: **Date of Decision:**	**STRATEGIC DIRECTOR FOR FINANCE AND LEGAL SERVICES** **22 November 2016**	
SUBJECT:	**EQUAL PAY UPDATE**	
Key Decision: No		
If not in the Forward Plan: (please "X" box)	**Chief Executive approved** ☐ **O&S Chairman approved** ☐	
Relevant Cabinet Member(s) or Relevant Executive Member for Local Services:		
Relevant O&S Chairman:		
Wards affected:	**ALL**	

1. Purpose of report:

1.1 The purpose of this Report is an update to the Audit Committee relating to the on-going liability of the Council in respect of equal pay claims under the Equal Pay Act 1970.

2. Decision(s) recommended:

That the committee:-

2.1 note the contents of the Report and to agree that a further update should be made to the Committee at a future meeting.

Lead Contact Officer(s):	Jon Warlow - Strategic Director of Finance and Legal
Telephone No: **E-mail address:**	303 2950 jon.Warlow@birmingham .gov.uk

3. Consultation

Consultation should include those that have an interest in the decisions recommended

3.1 Internal

4. Compliance Issues:

4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?

This report is for noting.

4.2 Financial Implications
(Will decisions be carried out within existing finance and Resources?)

The Council has made provision in its 2015/16 Statement of Accounts for the settlement and litigation costs of any outstanding valid Equal Pay claims. The cost of meeting the equal pay liabilities will be predominantly funded from capital receipts under the flexibilities granted by Central Government. The provision and the adequacy of planned funding are kept under regular review.

The revenue implications of Equal Pay settlements have been reflected in both budget for 2016/17 and in the LTFP and Efficiency Statement in relation to later years. This includes capital financing costs arising from previous years' capital expenditure, loss of income and other costs arising from asset sales and the repayment of any temporary borrowing from reserves.

4.3 Legal Implications

The power conferred by S222 Local Government Act 1972 'Power to prosecute or defend in court in the interest of the public' enables the Council to seek to settle equal pay claims.

4.4 Public Sector Equality Duty (see separate guidance note)

All settlement strategies to date have endeavoured to limit any adverse equality impact.

5.	Relevant background/chronology of key events:

5.1 The Equal Pay Act 1970 was an under-utilised piece of legislation with few claims for many years. Following the National Single Status Agreement in 1997, attention was focused on pay structures within Local Authorities and NHS Trusts. ”No win no fee” lawyers started issuing claims for Equal Pay in the late 1990s, and brought equal pay into the public arena.

5.2 During the last ten years there have been significant developments as a result of decided cases which have dramatically changed the scope of the Equal Pay Act and the ability of Local Authorities to deal with the resultant litigation

5.3 The Council's intention has always been to produce a gender fair salary structure. Indeed the process of producing and implementing a fair salary structure disclosed the inequalities and inconsistencies of the pay arrangements that existed prior to implementation of the Council's Pay and Grading scheme. Equal pay claims have been issued despite the Council actively pursuing a ‘Single Status’ agenda for its employees. The Council’s Pay & Grading Scheme has prevented, or should have prevented, any further claims as all employees were to be fairly and equally remunerated for work of equal value.

5.4 Equal pay claims broadly fall into two categories:

(a) Rated as Equivalent (RAE) – prior to Single Status these claimants usually referred to as ‘manual’ or ‘blue collar’; claimants, invariably female, choose a ‘manual’ male employee as their comparator and the comparators chosen in local government are almost always male employees with the benefit of bonus schemes from which they derive much higher levels of pay than the female claimants. These claimants would almost certainly have succeeded even if the bonus schemes were shown to be genuine productivity schemes; this is because female employees were ‘rated as equivalent’ under their old conditions of service and therefore entitled to the same rate of pay. However the women were not considered for bonus schemes in the same way as the male manual employees.

(b) Equal Value (EV) – prior to Single Status these claimants were referred to as ‘non-manual’ or ‘white collar’; claimants, invariably female, choose a ‘manual’ male employee as their comparator - non-manual v manual. This was allowed by the Court of Appeal and opens up the possibility of a large number of further equal pay claims using the same bonus earners as the ‘comparator’.

5.5 On 25th July 2011 Cabinet approved the proposed decision of the Chief Executive to settle all equal pay claims issued in the Employment Tribunal by employees of the Council subject to adequate financial provision.

5.6 Since that time Cabinet has supported the decision of the Chief Executive to make certain equal pay settlements taken under delegated authority granted by a report of Cabinet on 25 July 2011. Following Cabinet report in July 2014 the Cabinet Equal Pay Sub –Group was set up comprising of the Leader, Deputy Leader and Chief Executive. The Chief Executive has continued to authorise certain equal pay settlements in line with the strategy approved by Cabinet and Cabinet Equal Pay Sub-group.

5.7 Further background information is set out in a Private briefing

6.	Evaluation of alternative option(s):

This report is for noting only.

7.	Reasons for Decision(s):

This report is for noting only.

Signatures		**Date**
Cabinet Member or Executive Member for Local Services or Ward Committee Chairman	……………………………….	………………………………
Chief Officer	………………………………..	………………………………

List of Background Documents used to compile this Report:

Cabinet reports July 2014 and 2015

List of Appendices accompanying this Report (if any): none

Report Version	**V2**	**Dated**	**08 November 2016**

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	**AUDIT COMMITTEE**
Report of:	**Acting Assistant Director, Audit & Risk Management**
Date of Meeting:	**22nd November 2016**
Subject:	**Birmingham Audit - Half Year Update Report 2016/17**
Wards Affected:	**All**

1. PURPOSE OF REPORT

1.1 The attached report provides Members with information on:

- outputs and performance measures in relation to the provision of the internal audit service during the first half of 2016/17; and
- the outcome of the external assessment against the Public Sector Internal Audit Standards (PSIAS).

2. RECOMMENDATIONS

2.1 Members are asked to note the content of the report.

3. LEGAL AND RESOURCE IMPLICATIONS

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

4. RISK MANAGEMENT & EQUALITY ANALYSIS ISSUES

Risk Management is an important part of the internal control framework and an assessment of risk is a key factor in the determination of the internal audit plan.

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

5. COMPLIANCE ISSUES

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

…………………………………..

Craig Price
Acting Assistant Director, Audit & Risk Management

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

Telephone No: 0121 303 3475
E-mail address: craig_price@birmingham.gov.uk

Birmingham Audit Half Year Report 2016/17

22nd November 2016

Contents

1. Background

1.1 The 2016/17 audit plan was prepared in accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015. It also had due regard for the protocol with the External Auditors and took account of responsibilities under section 151 of the Local Government Act 1972.

1.2 The Council continues to go through significant change. The drivers for change being both organisational and financial. During a period of change it is important that any increased business risks are identified and managed in an effective manner. Our 2016/17 audit plan reflected these changes by concentrating on those areas of highest risk.

1.3 The 2016/17 audit plan was approved by the Audit Committee at the June 2016 meeting. This report provides a summary of the progress made in delivering this agreed plan.

2. Added Value Services

2.1 Although my primary responsibility is to give an annual assurance opinion, I am also aware that for the Internal Audit service to be valued by the organisation it needs to do much more than that. There needs to be a firm focus on assisting the organisation to meet its aims and objectives, and on working in an innovative and collaborative way with managers; to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the first half of 2016/17 include:

- Further extension and use of the data warehouse to detect and prevent crime, fraud and error including the provision of intelligence to a number of partners and agencies, eg: the Police & Fire Service.
- Using the Audit Data Warehouse to help the Council track pupils identified as missing from education.
- Audit recommendations and support to:

  - assist the Child Protection service in developing / improving the case conference process and engagement with children;
  - improve social work with families; and

- extend the use of pathway plans within placements team plans to ensure that young people are equipped to deal with transition to adulthood.

3. Performance

3.1 Outputs

During the first half of 2016/17 we issued 120 final reports.

Reports by Type	2015/16	2016/17 (Apr – Sept)
Internal Audit Reviews	105	57
Follow up Reviews	35	14
School Visits	27	38
Investigations	24	11
Proactive / Management Reviews	7	-
Total	198	120

In accordance with the procedure for sharing Internal Audit reports, all Audit Committee Members are provided with a list of final audit reports issued each month, together with details of risk and assurance ratings. Members are able to request copies of reports and receive futher information.

A full list of the reports issued during the first half year, including details of how the reviews link to the Council's priorities, core objective of good governance, the Corporate Risk Register and financial assurance is detailed in Appendix A.

Birmingham City Council

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

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

Of the 109 reports (57 Internal Audit, 38 School Visits and 14 Follow up Reviews) issued, 1 was given a red level 3 risk rating, 36 had an amber level 2 rating and 72 had a green level 1 rating.

A summary of the significant findings from our work is detailed in Appendix B.

3.2 Plan Completion

As at 30th September 2016 we had completed 39% of planned jobs against the September target of 40%, and annual target of 95%.

3.3 Corporate Fraud Team

The Corporate Fraud Team (CFT) is responsible for the investigation of financial irregularities perpetrated against the Council, whether this is by employees, contractors or other third parties. The Team identify how fraud, or other irregularity has been committed and make recommendations to management to address any issues of misconduct, as well as reporting on any weaknesses in controls to reduce the chance of recurrence in the future.

The table below summarises the reactive investigations activity of the Team (excluding Application Fraud) for the year to date:

	2015/16	**2016/17 (Apr – Sept)**
Number of outstanding investigations at the beginning of the year	19	14
Number of fraud referrals taken on during the year	139	57
Number of investigations concluded during the year	144	36
Number of investigations outstanding at the end of the year	14	35

All referrals are risk assessed to ensure that our limited resource is focused on the areas of greatest risk. We work in conjunction with managers to ensure that any referrals that are not formally investigated by us are appropriately actioned.

Within the CFT there is a sub-team specifically established to tackle 'application based' fraud, primarily related to Social Housing and Council Tax. Their results are summarised in the table below:

	2015/16	**2016/17 (Apr – Sept)**
Properties Recovered	95	23
Applications Cancelled	300	119
Reduced Points (Applications)	77	28
Housing Benefit Overpayment	£562,291	£207,955
Council Tax Change	£180,167	£180,173

4. Compliance with the Public Sector Internal Audit Standards (PSIAS)

4.1 The PSIAS became effective from 1st April 2013. These standards set out the fundamental requirements for the professional practice of internal auditing within the public sector.

4.2 During 2015/16 we undertook a full self-assessment to identify Birmingham Audit's level of compliance with the standards. In July 2016 an independent assessment was undertaken by colleagues from Bristol City Council. Their assessment identified that:

"Birmingham City Council's Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards" and that *"Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups."*

The review identified a number of recommendations to further enhance processes. These recommendations have been accepted and are being implemented. A copy of the external report is attached as Appendix C.

5. Resources

5.1 The Council faces a number of financial challenges and has identified the need to make significant financial savings. Birmingham Audit is required to contribute to these savings. We continually review our working practices, methodologies and structure to ensure they remain appropriate and support the organisation. With effect from 1st October 2016 a revised team structure was implement. This revised structure sees the consolidation of service based audit teams from three separate teams in to a single team. This revised structure enables saving to be achived through the consolidation of Group Auditors whilst minimising the impact on the audit plan.

6. Completion of the Internal Audit Plan 2016/17

6.1 The 2016/17 plan contains 5,443 days (4493 days excluding the Schools Team). The table below details completion as at 30th September 2016.

	2016/17 %	2016/17 Planned Days	Actual Days as at (Apr – Sept)	% Coverage
Number of Audit Days in the annual plan	**100%**	**5,443**	**2,448**	**45%**
Main financial systems	16	860	439	51
Business controls assurance	35	1875	798	43
Investigations	15	840	361	43
Schools (Non Visits)	4	195	37	19
Schools (Visits)	17	950	465	49
Follow up work	4	225	49	22
Ad-hoc work	5	273	169	62
Planning & reporting	3	180	120	67
City initiatives	1	45	10	22

Birmingham City Council

Appendix A

Reports Issued During the First Half of 2016/17

Audit Reviews (57 Reports):

Key to linkages to the Council’s areas of priority, core objective of good governance,Corporate Risk Register and financial assurance:

1. Children (a great city to grow up in)
2. Jobs & skills (a great city to succeed in)
3. Housing (a great city to live in)
4. Health (a great city to lead a healthy and active life in)
5. Good Governance
6. The Corporate Risk Register (CRR - based on the version which went to Audit Committee on 26th July 2016)
7. Financial Assurance

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Acivico Contract Monitoring - Overall Delivery of Contract	Medium	2					✓	✓	
Savings Plan - Progress	Medium	2					✓	✓	
Sophos Post Implementation Review	Medium	2							
Child Protection Case Conferences - Engagement	Medium	2	✓					✓	
Adults Direct Payment	Medium	3				✓			
Dealing with Excluded Pupils	Medium	3	✓					✓	
Sexual Health Contract - Effectiveness of Commissioning	Medium	3	✓						
Northgate Housing Security	Medium	3			✓				
BMHT Property Transactions	Medium	3			✓				

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Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Financial Control Review	Medium	2					✓		
Contracts and Procurement Summary Report 2015/16	Medium	3							✓
Children Missing From Education	Medium	3	✓					✓	
Tenancy Management	Medium	3			✓				
Accounting for Non HRA Assets	Medium	3					✓		
Effective Social Working With Families	Medium	3	✓					✓	
CareFirst	Medium	3	✓					✓	
Sexual Health Contract - Identification of Child Sexual Exploitation	Medium	3	✓					✓	
Cityserve Financial Control Review	Medium	3					✓		
Annual Tenancy Visits 2017	Medium	3			✓				
Database Security 2017	Medium	3					✓		
Quotation Process	Medium	3							✓
Markets	Medium	3							✓
AP - Purchase Cards - Directorates / Youth Service	Medium	3	✓						
IT Disaster Recovery 2017	Medium	2					✓		
Operating System Security 2017	Medium	3					✓		
Public Health Restructure and Service Redesign - Governance	Medium	2				✓			
Resilience - Business Continuity Plannig for Critical Services	Medium	3					✓	✓	
Carefirst Voyager Master Data	Low	2						✓	
Vendor Master Data	Low	2							✓
Cancellation and Write Offs	Low	2							✓
Corporate Payroll Transaction Testing	Low	2							✓
Lost and Stolen IT Equipment	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Human Resources Subject Access Request	Low	2	✓					✓	
Children’s Direct Payments	Low	2	✓					✓	
Carefirst IT Review	Low	2	✓					✓	
AP - Validation of High Value Payments - Greater Than 75k	Low	1					✓		
AR - Processing & Payment Methods	Low	2							✓
Benefit Service - Discretionary Housing Payments	Low	2			✓				
Corporate Payroll Annual Summary Report 2015/16	Low	2							✓
AR Annual Summary Report 2015/16	Low	2							✓
N3 Network	Low	2				✓			
Environmental Health	Low	2				✓			
Ethics	Low	1					✓		
Acivico Contract Monitoring - Final Accounts Process	Low	3					✓	✓	
Highways PFI	Low	2						✓	
Rent Collection & Charges - Introductory Tenancy Process - Case Panel Review	Low	2			✓				
E-Procurement - IT Security (In-Tend System)	Low	2					✓		
Housing Visiting Programme Mobile Solution	Low	3			✓				
Destin Manual	Low	2							
Quality Checks - Housing Benefits	Low	2			✓				
AR - Recovery of employee related debts	Low	2							✓
Mobile Devices	Low	3							✓
Billing & debt recovery processes within business areas	Low	1							✓
Directory Services 2017	Low	2							✓
AP - Activities in Directorates	Low	2							✓

Title	Council Risk Rating	Assurance	1 Children	2 Jobs & skills	3 Housing	4 Health	5 Good Gov	6 CRR	7 Financial Ass
Complaints - Revenues and Benefit Service	Low	1					✓		
Non Invoiced Income - Car Parking Income	Low	2							✓

Follow Up Reports (14 Reports):

Title	Risk Rating Council
Deprivation of Liberty Standards Follow Up	High
IT Project Governance Follow Up	Medium
Independent Living Follow Up	Medium
Management of Voids Follow Up	Medium
SAP GRC Follow Up	Medium
Information Governance - Adoption & Fostering Follow Up	Medium
Young Adults Re-provisioning Follow Up	Medium
Personal Education Plans Follow Up	Medium
Corporate Asset Management Follow Up	Low
Reconciliation of Control Accounts Follow Up	Low
Children with Complex Needs - Complaints Procedures Follow Up	Low
Caldicott Guardian Follow Up	Low
Web Page Security Follow Up	Low
SAP Roadmap Follow Up	Low

Investigation Reports (11 Reports)

School Visits (38 Reports)

Birmingham City Council

Appendix B

Summary of Significant Findings

Red High Risk Reports

During the first half of 2016/17 we issued 1 report, where we identified a 'high' risk rating for the Council. Brief details of the issues highlighted in this report are detailed below:

Deprivation of Liberty Standards Follow Up - Deprivation of Liberty Safeguards (DoLs) assessments continues to be a national problem. Whilst there is ongoing activity to review and amend the Mental Capacity Act in relation to when a DoLs assessment is required, any potential change to legislation is not expected to be in place until 2020. We acknowledge that this is not a Council specific problem and have seen evidence that the arrangements to manage and monitor assessments have improved. The Directorate have progressed the previously agreed actions, no new recommendations were identified.

School Visits

During the first half of 2016/17 we have continued to work with both Directorate and school colleagues to ensure we undertake a robust and added value audit of key elements of school strategic and operational service delivery. Our work programme has changed in line with the main aims and objectives of the Directorate, and to reflect concerns and priorities within schools. The focus of our work has been on governance, financial management and elements of safeguarding. The main issues identified are:

- **Governance** - Workload pressures on Governing Bodies continue to increase, and this has contributed to delays in Governing Bodies responding to the need to self-evaluate their skills and their impact on the school.
- **Financial Governance** - Weaknesses in the delegation framework were found in a number of schools; impacting on clarity around financial responsibilities. Improvements are required to the production and submission of the Schools Financial Value Standard return and the Statement of Internal Control, key documents in terms of school self-evaluation.
- **Strategic Oversight** - Governing Bodies are still developing an overarching school strategy which will be used to drive the improvement plan.

- **Budget Planning** - Whilst day to day financial management was well established, a high proportion of schools are relying on carry forward surpluses to set a balance budget. This poses a risk for future years.
- **Delegated Powers** - There has been a degree of non-compliance with school financial procedures and the delegation framework for schools expenditure, in-particular the effective monitoring of cumulative expenditure to ensure value for money is obtained.
- **Safeguarding** - Schools were well aware of their responsibilities in relation to safeguarding children and take that responsibility seriously. However, improvements are required in respect of the effective monitoring of IT and Internet use, and undertaking due diligence prior to lettings for both safeguarding and the ‘No Platform for Extremism Policy’.
- **Attendance** - Overall attendance was well managed and effective arrangements were in place. Two areas were identified that require further development: the retention of sufficient records where pupils leave a school in year, and ensuring correct codes are used to record attendance.

Overall we have continued to find that the majority of schools visited have effective systems of control in place, and staff and Governors are do things correctly. There are areas for development which would improve strategic and operational delivery, but in the main, schools are being well managed.

Appendix C

Peer Review of Birmingham City Council Internal Audit Against the UK Public Sector Internal Audit Standards

INTERNAL AUDIT
Report Title: Peer Review of Birmingham City Council Internal Audit Against the UK Public Sector Internal Audit Standards
Date: July 2016

Report Author: Alison Mullis
Contact: Phil Eames

Melanie Henchy-McCarthy
Chief Internal Auditor
0117 92 22063
melanie.henchy-mccarthy@bristol.gov.uk
Alison Mullis
Chief Internal Auditor
0117 92 22448
alison.mullis@bristol.gov.uk

1. Executive Summary

1.1 Bristol Internal Audit Service has undertaken a peer review of Birmingham City Council's (BCC's) Internal Audit Service against The UK Public Sector Internal Audit Standards (PSIAS) in accordance with the Terms of Reference agreed by The Core Cities Chief Internal Auditors' Group. See Appendix B.

1.2 In April 2013, a new set of Public Sector Internal Audit Standards (PSIAS) became effective. These standards are mandatory for internal audit in local government. The standards are intended to reflect that "a professional, independent and objective internal audit service is one of the key elements of good governance". The PSIAS introduced a requirement for an external assessment of an organisation's internal audit function, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

1.3 The Core Cities Chief Internal Auditors' Group has established a 'peer- review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self- assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of BCC. The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded.

1.4 The PSIAS include a specific definition of Internal Auditing, a Code of Ethics and eleven specific standards. The standards are divided into attribute standard and performance standards. Our external assessment concludes that BCC's Internal Audit Service **conforms** to the requirements of the PSIAS. There are 184 areas within the Standards and only a few partial conformances and non-conformances have been identified which require further development. The opportunity to do this should enhance the strategic and operational function of BCC's Internal Audit Service. These matters do not impact on the overall opinion.

2. Approach/Methodology

2.1 The Core Cities Chief Internal Auditors' Group agreed a detailed terms of reference that outlines the broad methodology for the conduct of each peer review. The peer review was undertaken in three stages: pre-review; on-site review; post-review evaluation and reporting. It covered audit activity during the period covered in the latest Head of Internal Audit's annual report 2015/16 and work in the current year to July 2016.

2.2 The Acting Assistant Director Audit and Risk Management (the Head of Internal Audit), assisted by the Principal Business Auditor completed a self-assessment of BCC's Internal Audit Service and its compliance with the PSIAS, using the pro-forma in the CIPFA Local Government Application Note, which supports the PSIAS. The self-assessment was evidenced with reference to a range of internal and published documentation.

2.3 The self- assessment formed the basis for the external review by way of an independent validation of the self-assessment. This included a review of supporting documentation and details of responsibilities, resources, structure, activity, quality and performance measures and reports. The review team met the Head of Internal Audit and the Principal Business Auditor to discuss elements of the self- assessment.

2.4 A sample of audit assignments was examined and compared against the PSIAS requirements. Operational practices and quality assurance processes were discussed and further supporting documentation held on BCC's Internal Audit Service's audit management system, 'Galileo', and document repository, 'SharePoint', reviewed. Discussions were held with Internal Audit staff to confirm audit procedures and process.

2.5 The review team met with the Chair of BCC's Audit Committee and observed an Audit Committee Pre-Agenda meeting.

2.6 A survey of a sample of main stakeholders in BCC's Internal Audit Service work was compared to the Audit Service's own view of the corporate opinion of their service provision.

3. Audit Findings

3.1 Our external assessment found that BCC's Internal Audit Service is well positioned, valued and makes an active contribution to the continuous improvement of systems of governance, risk management and internal control. This is achieved through both the delivery of the planned programme of audit work but also the active engagement and involvement of the Audit Service in developing systems and corporate working groups. The Head of Internal Audit is well regarded and maintains positive engagement across the Council.

3.2. Roles and responsibilities are understood and there is regular, timely communication of audit assurances, issues and concerns to management and Councillors. The Audit Service is accredited to quality standards and the work is undertaken with due diligence and quality assured to a good standard. Good use is made of the automated audit management system and the Council's document repository system. There is a genuine commitment to ongoing service improvement.

3.3 We surveyed stakeholders of BCC's Internal Audit Service's work. The survey required respondees to agree or disagree with a number of positive statements made about BCC's Internal Audit Service; 82.5% of responses were 'fully agree' or 'generally agree'. The responses to the survey are shown at Appendix A; senior managers who responded particularly appreciated:

- Their involvement in the formation of the Internal Audit Plan.
- The professional way in which BCC's Internal Audit Service's work is delivered.
- The advice of BCC's Internal Audit Service.
- The positive impact BCC's Internal Audit Service's work has on the Council's governance, risk and systems of internal control and enhancing understanding of these areas across the Council.

3.4 These positive messages from senior managers were reinforced by the Chair of the Audit Committee who was very complementary of BCC's Internal Audit Service's work.

3.5 We have shared our findings with the Head of Internal Audit who is aware that the specific non-conformances with the standards identified and the impact of these must be disclosed to senior management and the Audit Committee. An action plan has been drafted to respond to areas of partial compliance and non-compliance and this is provided below.

4. Recommendations

4.1 Matters arising from the external assessment have been recorded below together with recommendations to address them and a management response to the issue and recommendation:

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
1	**PSIAS Code of Ethics** The Code of Ethics requires internal auditors to only carry out services for which they have the necessary knowledge, skills and experience and continually improving their proficiency and effectiveness. We noted that training has a high profile within BCC's Internal Audit Service. There was no evidence that auditors were undertaking work for which they were unsuited. Recent and likely future changes to both the Council's structures and means of delivery and also within the Audit Service mean that ensuring internal auditors have the necessary knowledge, skills and experience to undertake their work to a high standard remains critical. We noted that BCC's Internal Audit Service does not have a formal training strategy in place.	The Head of Internal Audit should draw up a formal training strategy for BCC's Internal Audit Service.	Agreed. This will be incorporated into ongoing work on the identification of the skills required for auditing within the changing environment and development of a supporting training programme. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st October 2016.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
2	**PSIAS 1000 Purpose, Authority and Responsibility** The Internal Audit Charter should define the terms 'board' and 'senior management', for the purposes of the internal audit activity. We noted that BCC's Internal Audit Service had a adopted a broad definition that "The term 'senior managers and the board', can refer to one or all of the following: Audit Committee, Chief Executive, Assistant Chief Executive or Strategic Director Finance & Legal". The Board and senior managers have different roles with regard to internal audit activity and we consider that a more narrow definition would provide greater clarity.	The Head of Internal Audit should provide a more precise definition of the 'board' and 'senior management', for the purposes of the internal audit activity, in BCC's Internal Audit Service's Internal Audit Charter.	Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st March 2017. To be approved by the Audit Committee in June 2017.
3	**PSIAS 1000 Purpose, Authority and Responsibility** The Internal Audit Charter should define the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit. We noted that BCC's Internal Audit Service had not defined these roles within the Internal Audit Charter.	The Head of Internal Audit should define the role of the statutory officers in BCC's Internal Audit Service's Internal Audit Charter.	Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st March 2017.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
4	**PSIAS 1000 Purpose, Authority and Responsibility** The Internal Audit Charter should define the nature of consulting services. We noted that BCC's Internal Audit Service had not defined the nature of consulting services. We were informed that BCC's Internal Audit Service's self-assessment stated that the Audit Service undertook very little consultancy work. We noted that BCC's Internal Audit Service's Annual Report for 2015/16 described several pieces of work as 'Added Value Services' and that the Audit Service also had responsibility for the compilation of the Council's risk register and oversight of the Council's corporate information management. Defining the nature of consulting services and relating this to the work described above would enable the purpose, scope and approach to this work to be clarified.	The Head of Internal Audit should define the nature of consulting services in BCC's Internal Audit Service's Internal Audit Charter and clarify which work undertaken falls within this definition.	Agreed. This will be addressed when producing the 2017/18 Internal Audit Charter. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st March 2017.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
5	**PSIAS 1000 Purpose, Authority and Responsibility** The PSIAS require the Head of Internal Audit to periodically review the internal audit charter and present it to senior management and the board for approval. We noted that BCC's Internal Audit Charter was approved annually by the Audit Committee. Other documentation such as the BCC's Internal Audit Service Statement is not approved by the Audit Committee, but by the S151 Officer.	The Head of Internal Audit should consider whether other Internal Audit Service documentation should periodically be presented to the Audit Committee for approval.	Agreed. This will be discussed with the Chair of the Audit Committee and any additional documentation identified. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st October 2016.
6	**PSIAS 1100 Independence and Objectivity** The PSIAS require that, to maximise the independence of the Head of Internal audit, the Audit Committee should approve decisions relating to the appointment and removal of the Head of Internal Audit and that the Chair of the Audit Committee should provide input for the Head of Internal Audit's performance appraisal. We noted that the terms of reference of the Audit Committee do not include these responsibilities.	The terms of reference of the Audit Committee should be amended to: • Require its involvement in decisions relating to the appointment and removal of the Head of Internal Audit. • Require it to provide feedback for the Head of Internal Audit's annual appraisal.	PSIAS 1100 & 1110 require Internal Audit to be independent and objective in performing their work and report to a level within the organisation that allows it to fulfil its responsibilities. This is fulfilled by the Head of Internal Audit reporting managerially to the Strategic Director of Finance and Legal (Section 151 Officer and a member of the Corporate Leadership Team) and on a functional basis to the Audit Committee. The Head of Audit is also free to report to the Chief Executive, Monitoring Officer

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
			or Corporate Leadership Team as appropriate. In line with the Council's agreed employment policies the appointment of the Head of Internal Audit is a decision for the Section 151 Officer in consultation with the Chair of the Audit Committee. Feedback from the Chair of the Audit Committee on the performance of the Head of Internal Audit is currently obtained. A formal arrangement will be established where feedback is sought from Committee Members as part of the Section 151 Officers annual review and report on the effectiveness of the systems internal audit. **Responsible Officer:** Jon Warlow, Strategic Director Finance and Legal **Due Date:** 31^{st} March 2017.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
7	**PSIAS 1100 Independence and Objectivity** The PSIA requires that, to maximise independence, new auditors should not assess specific operations for which they have been responsible within the previous year and that ongoing assurance work should be rotated periodically within the internal audit team. We noted that there was no formal policy covering these matters although in practice auditors were not allocated work where their independence might be compromised. The Head of Internal Audit commented that auditees found continuity of audit staff beneficial as their previous knowledge made internal audit work more efficient and effective, which we acknowledge.	The Head of Internal Audit should develop a formal policy on the allocation and rotation of audit work. This policy should also reflect the benefits of continuity of audit staff.	This will be considered as part of the ongoing work to development a training programme and a formal policy documented. The policy will take into account specialist roles, e.g schools audits / data analysis / fraud investigators and the need for subject matter experts. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st December 2016.
8	**PSIAS 1311 Internal Assessments** The PSIAS require internal auditors to obtain stakeholder feedback as part of ongoing performance monitoring. The need to gain further stakeholder feedback was identified as an area for development in BCC's Internal Audit Service's self-assessment. The survey we undertook as part of this review provides summary feedback from stakeholders which could be used to target service improvement and if repeated used to monitor service improvement over time.	The Head of Internal Audit should consider the outcomes of our survey of stakeholders to inform further development of BCC's Internal Audit Service. The Head of Internal Audit should consider periodically repeating the survey to give a measure of service improvement over time.	Agreed. A project to identify an appropriate method for obtaining meaningful stakeholder feedback is already underway. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st October 2016.

Item	Matters Arising	Recommendations	Management Comments, Responsible Officer & Due Date
9	**PSIAS 2200 Engagement Planning** The PSIAS require internal auditors to have regard to a number of matters when planning engagements. These requirements are discussed in team meetings and reinforced through team emails. The requirement to have regard to fraud is reflected in a standard sentence in BCC's Internal Audit Service's standard audit planning memorandum issued to auditees. Internal auditors are also required to have due regard to value for money in undertaking their work. Including a standard sentence to this effect in audit planning memorandum would serve as a useful reminder to internal audit staff and auditees of this responsibility.	The Head of Internal Audit should consider adding a standard sentence relating to internal auditors' responsibilities for value for money in BCC's Internal Audit Service's standard audit planning memorandum.	The current audit planning memorandum template states that *'Any recommendations which are identified during the audit to strengthen business processes, improve value for money and manage risk, will be reported to management.'*, however, we will include an additional sentence within the 'Audit Methodology & Scope' section relating to internal auditors' responsibilities in relation to value for money. **Responsible Officer:** Craig Price, Acting AD Audit & Risk Management. **Due Date:** 31st October 2016.

5. Distribution and Context

5.1 This report has been issued to: Craig Price, Acting Assistant Director Audit and Risk Management & Jon Warlow, Strategic Director Finance & Legal.

5.2 Jon Warlow will determine who at BCC will receive the report, although we have been informed that it will be formally reported to the Audit Committee.

5.3 Bristol Audit Service staff involved in the review: Alison Mullis, Chief Internal Auditor & Phil Eames, Group Auditor.

5.4 The PSIAS require that external reviewers should possess a recognised professional qualification, have appropriate experience of internal audit within the public sector / local government, have detailed knowledge of leading practices in internal audit and have current and in-depth knowledge of the Definition, the Code of Ethics and the International Standards for Internal Audit. We can confirm that the staff who undertook the review were professionally qualified, experienced in public sector / local government internal audit work and knowledgeable regarding the PSIAS.

5.5 There was no conflict of interest in Bristol Audit Service performing this assessment in respect of BCC's Internal Audit Service; Bristol Audit Service is not part of, or under the control of BCC.

5.6 Bristol Audit Service would like to thank all BCC colleagues involved in the review for their co-operation and assistance.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards 2013)

SUMMARY OF RESPONSES TO A SURVEY OF A SAMPLE OF MAIN STAKEHOLDERS IN BCC'S INTERNAL AUDIT SERVICE'S WORK

QUESTION / STAKEHOLDER RESPONSE (THERE WERE 7 RESPONSES FROM A SAMPLE OF 17 STAKEHOLDERS)	FULLY AGREE	GENERALLY AGREE	PARTIALLY AGREE	DO NOT AGREE
Q1. I trust and value the advice of the Head of Internal Audit and the internal audit service.	4	1	2	-
Q2. I understand and fully support the work of internal audit.	1	5	1	-
Q3. The internal audit service is delivered with professionalism at all times.	4	3	-	-
Q4. The internal audit service responds quickly to changes within the organisation.	2	2	2	1
Q5. The internal audit service provides healthy and independent challenge to management, processes and procedures which results in improved service delivery.	3	3	1	-
Q6. The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes.	3	2	2	-
Q7. The internal audit service ensures that recommendations made are commercial and practical in relation to the risks identified.	3	3	1	-
Q8. In devising the annual internal audit plan, the Head of Internal Audit seeks my views on key risk areas which would benefit from audit review.	6	1	-	-
Q9. Internal audit advice has a positive impact on the governance, risk and systems of internal control within the Council and enhances understanding of these areas across the Council.	4	2	1	-

Appendix B

Core Cities Chief Internal Auditor Group - External Assessment - Peer Review Terms of Reference

Purpose of the Paper

At the meeting of the Core Cities Chief Internal Auditor (CIA) group held on the 3rd September 2014 it was agreed that member authorities should begin to formalise the arrangements for their external assessments and develop a clear basis for the approach to undertaking the assessments. It was agreed that the external assessment process should be undertaken as a peer review whereby one authority would undertake a peer assessment of a different authority within the group. It was also agreed that reciprocal reviews would not be undertaken.

Background Information

Members of the peer group: Sheffield City Council, Leeds City Council, Liverpool City Council, Birmingham City Council, Nottingham City Council, Bristol City Council, Newcastle City Council, Manchester City Council and Glasgow City Council.

External Assessments: The Public Sector Internal Audit Standard (PSIAS) introduced a requirement for an external assessment which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.

External reviewers should:
- Possess a recognised professional qualification
- Have appropriate experience of internal audit within the public sector / local government
- Have detailed knowledge of leading practices in internal audit
- Have current, in-depth knowledge of the Definition, the Code of Ethics and the International Standards.

The Head of Internal Audit should discuss the proposed form of the external assessment with their line manager (where relevant) or Section 151 Officer (or equivalent) or Chief Executive prior to making recommendations to the Audit Committee regarding the nature of the assessment. The scope of the external assessment should have an appropriate sponsor, such as the Chair of the Audit Committee or Section 151 Officer.

The Head of Internal Audit should report the results of their quality assurance improvement programme (ongoing activity, internal and external assessments) to stakeholders. Such stakeholders should monitor the implementation of actions arising from internal and external assessments.

Purpose of the Review

The purpose of the external assessment is to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded. The assessment should be a supportive process that identifies opportunities for development and enhances the value of the audit service to the authority.

Proposed Approach

Members of the Core Cities group have elected to adopt the internal self-assessment approach validated by an external reviewer. The key benefit to this approach is cost. The Chartered Institute of Internal Auditors (CIIA) offer a service to provide external assessments and can undertake a full external quality assessment with an approximate cost of £15K (based on a quote obtained for the Internal Audit service at Sheffield City Council). They also provide a validated assessment, similar to the approach agreed by the core cities group, which takes approx. 5 working days and costs approx. £11k.

There are financial savings to members of the Core Cities group by adopting the peer review approach outlined within this paper. In addition, the approach is in keeping with the promotion of collaborative working arrangements.

Each authority will determine an appropriate member of their team to conduct the external assessment, taking into account qualifications and relevant experience.

A standard template will be devised for the purposes of reporting conformance. A moderation process will be developed to ensure consistency in the severity of issues being reported.

Upon conclusion of the external assessment, the reviewer will offer a ‘true and fair’ judgement and it is proposed that each authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** to the PSIAS.

Independence and Objectivity

Prior to the assessments taking place all parties will agree the programme of peer reviews and an appropriate timetable, including the number of days required to undertake the reviews. It is important to ensure the independence of the auditor undertaking the peer assessment. Any known or perceived conflicts of interest should be disclosed. It should be acknowledged at the outset that all Core City Internal Audit services have some knowledge of each other.

The Assessment Process

Completion of the Checklist: Each Head of Internal Audit must complete the Checklist for Conformance with the PSIAS which is attached to the Local Government Application Note in advance of the external assessment. It is essential that the basis of the assessment is documented.

Pre Assessment Phase (2 days):

- Confirm the terms of reference for the review, timescales and dates for the review – this should include any specific issues that the authority may want to be considered as part of their quality assessment.
- Obtain;
    - relevant background information to gain an understanding of the service. This should include the Internal Audit Charter / Strategy or Terms of Reference (independence, scope authority, purpose and the relationship with the Audit Committee and senior executives);
    - details of responsibilities, resources, structure and activities;
    - details of any external client organisations e.g. Joint Authorities and consider whether such organisations may have different outcomes in terms of compliance with the PSIAS and whether separate assessments may be required;
    - the completed self-assessment and supporting evidence; and
    - Obtain evidence of how quality is maintained and performance is measured and reported.
- Issue a questionnaire to key stakeholders at the Council to obtain feedback on the internal audit procedures and process.
- Evaluate all documentation supporting the self-assessment prior to the on-site visit.

Assessment Phase (on-site visit) (1day):

- Raise and resolve any queries arising from the review of the self-assessment.
- Examine a sample of audit engagements to verify compliance to the PSIAS and procedures.

- Interview key staff to confirm audit procedures and process.
- Undertake an exit meeting with the Head of Internal Audit.

Post Assessment Phase (1 day):

The review should conclude with a detailed report providing an evaluation of the team's conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The report should highlight areas of partial conformance / non-conformance and include suggested actions for improvement, as appropriate.

Reporting Phase (1 day):

- Discussion of the draft report with the Head of Internal Audit.
- Issue of draft final report and agreed actions to the Head of Internal Audit to confirm accuracy.
- Issue final report to the Head of Internal Audit and Sponsor.
- Head of Internal Audit / Sponsor to report outcomes to their Audit Committee, together with an action plan and proposed implementation date(s).

It is envisaged that the assessment process should take 5 days in total.

Proposed schedule

Liverpool review Manchester (50mins, direct)	Bristol review Birmingham (1.5hrs, direct)
Manchester review Glasgow (already underway)	Glasgow review Liverpool (3.5 hrs, 1 train change)
Leeds review Sheffield (1hr, direct)	Sheffield review Nottingham (1hr, direct)
Nottingham review Bristol (3hrs, 1 change)	Birmingham review Leeds (2hrs, direct)

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: AUDIT COMMITTEE **Report of: Strategic Director – Finance &Legal** **Date of Meeting: 22 November 2016** **Subject: ANNUAL GOVERNANCE STATEMENT - PROGRESS**	
Wards Affected: All	

1. Purpose of Report

1.1. The Annual Governance Statement (AGS) was approved at Audit Committee on 21st June 2016 and formed part of the Statement of Accounts for 2015/16, signed by the Chair of Audit Committee on 29th September 2016.

1.2. Section 6 of the AGS identified significant governance issues in 2015/16. The section included 6 key issues for the Council which may impact on the organisation's governance arrangements.

1.3. This report advises Audit Committee of the arrangements which are in place for these issues including reference to recent reports which have been made on these matters.

2. Recommendation

2.1. To consider the report and to agree that a further update should be made to the Committee in March 2017.

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

3. Background

3.1 The AGS has been developed as part of local government's response to the corporate governance agenda.

3.2 The evaluation and development of Internal Control within the Council forms a core function of Audit Committee. The 2015/16 AGS report was formally approved by Audit Committee on 21st June 2016. The AGS formed part of the Statement of Accounts for 2015/16 approved by the Chair of Audit Committee on 29th September 2016 and formally published on 30th September 2016.

3.3 The significant issues raised were summarised in section 6 of the original AGS. This section comments very broadly on the Council's achievement of its central objectives and external assessments, it raises issues arising from joint working with partners and refers to significant matters highlighted by the annual review of internal control.

3.4 The Schedule at Appendix 1 to this report picks out these key issues and identifies the lead directorate addressing them.

3.5 The Schedule gives Audit Committee an overview of the issues which bear on the AGS and how the Council is managing these.

4. Legal and Resource Implications

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

5. Risk Management & Equality Impact Assessment Issues

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

6. Compliance Issues

6.1 The AGS forms part of the statutory requirements for the Council's Annual Statement of Accounts.

6.2 The Council's continued improvement in responding to the issues referred to in the Statement will complement the development and delivery of culture change under the Future Council.

7. Recommendations

7.1 To consider the report and to agree that a further update should be made to the Committee in March 2017.

…………………………………..

Jon Warlow, Strategic Director – Finance & Legal

Appendix 1

Governance Statement Issue	
1. <u>Safeguarding</u> **<u>Background Information from AGS</u>** Safeguarding children remains a priority. Work will continue to review the action plans in place as a result of the review by Commissioner Lord Warner and producing a robust Business Plan for 2016/17 and future years. The Care Act 2014 sets out the legal requirements for adult safeguarding.	
Responsible Directorate: People	
Original Proposed Action AGS	**Update/Progress**
	<u>November Update:</u>
The Council has launched an operating model which sets out the vision, values, direction and shape of the service.	The operating model is now embedded and supported by a practice evaluation programme which includes systematic monthly auditing of cases informing learning and development. It is a strong platform to improve the quality of social work intervention. Staff like the model and Ofsted has endorsed it.
A Practice Evaluation Programme has been introduced.	There has been a practice evaluation programme in place since January 2016. Team Managers undertake one practice evaluation per month and learning is shared with the social worker. Themes across the city on relation to practice are collated and learning cascaded to teams through the quarterly practice evaluation bulletins. Using this framework as a learning tool is beginning to improve practice and needs to be linked to performance.

A clear performance framework that provides challenge and accountability at all levels has been introduced. The Care Act established the requirement to set up an independent Safeguarding Board for Adults. Arrangements are in place to work alongside the existing membership of the Birmingham Adults Safeguarding Board (BSAB) with a view to ensuring that local arrangements are compliant with the Care Act.	The performance framework spans political leadership through to frontline/area challenge to practice and improvement. The Council is now exploring new governance arrangements via a children's trust model. The Council has met its statutory requirements for safeguarding adults under the 2014 Care Act by: Establishing policy and procedure and working arrangements to recognise the need for, and undertake statutory Safeguarding Adults Enquiries (or cause others to do so). Ensuring arrangements are in place for independent advocates to support adults with care and support needs who have substantial difficulty in participating in their enquiry and have no one else to help them. Reviewing and agreeing with partners the amended membership, governance, operating agreement and strategic ambitions of the existing Safeguarding Adults Board. The present chair has announced his intention that the Board will in future move to adopt the recommendation of the Act's Statutory Guidance to appoint an Independent Chair. The Board has arrangements to undertake Safeguarding Adults Reviews. It has published its strategic plan for 2015-18, and shortly publishes its Annual Report for 2015/16.

Governance Statement Issue	
2. <u>Financial Resilience</u> **<u>Background Information from AGS</u>** The Council faces continued reducing resources. This poses challenges to the financial resilience of the Council. The Council's Business Plan sets medium term strategies for business changes, the management and development of its services and maintenance of its assets, and a specific plan over a period of up to 10 years. Given the Council is in the sixth year of budget reductions the possibility of Judicial Review challenge to the budget or elements of it remains high. The risk of failure to deliver the necessary actions to achieve savings requires close monitoring.	
Responsible Directorate: Corporate Resources	
Original Proposed Action AGS	**Update/Progress**
Service Reviews considered options for future service delivery in the light of corporate priorities, statutory duties, service performance standards and resources available. By focussing on its Future Council 2020 vision, the Council has agreed its 2016/17 budget and a multi-year financial strategy to deliver the vision Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.	<u>November Update:</u> The Council continues to have robust systems for monitoring its budget with regular reporting to CLT and Cabinet. A Mid-Year Review included a realistic assessment of difficulties in delivering the savings programme, and this is being taken into account in planning for future years. It also obtained approval for a number of new savings initiatives as part of the Council's ''live budgeting'' approach. The Council recognises the scale of the challenge represented by the savings still necessary to be made and this is the primary focus of the administration and senior management. The development of new savings options is being informed by the Council's policy priorities, and robust

	implementation and consultation plans will be put in place. The Council continues to take a medium-term view in its financial planning. Comprehensive consultation on budget proposals will take place as usual.

Governance Statement Issue	
3. <u>Equal Pay Claims</u> **<u>Background Information from AGS</u>** The risk of Equal Pay Claims remains significant and is being actively managed by a joint team from Legal Services and Human Resources. Financial resilience continues to be a focus for the external auditors and increasing demands to evidence Going Concern.	
Responsible Directorate: Corporate Resources	
Original Proposed Action AGS	**Update/Progress**
The law in respect of equal pay is complex and has developed over the past 10 years. Any entitlement to compensation has to be justified in accordance with the legal position. Equal pay claims issued against the Council are subject to detailed analysis and robust legal challenge. The Council has sought to secure settlements that represented the best outcome for the taxpayer.	<u>November Update:</u> Settlement of valid claims is subject to availability of financial resources and relevant governance approval in line with delegated authority. Claims are robustly challenged prior to any settlement.

Governance Statement Issue	
4. <u>Governance Arrangements</u> **<u>Background Information from AGS</u>** From the review of governance arrangements made by Lord Kerslake and following the BIIP's review, work on the Future Council Programme continues. This includes: • Clear values, purpose and vision for the future Council, along with its future operating model; • A medium term outcomes-driven council and financial plan to take the Council to 2020/21; • Strategic alignment of outcomes, resources, policy-making, service delivery, governance and roles and responsibilities; and • Sufficient senior leadership capacity to transform the organisation and deliver sustainable change.	
Responsible Directorate: Corporate Resources	
Original Proposed Action AGS	**Update/Progress**
Develop the Future Council Programme to: • Define the vision for the Council. • Deliver the changes required in workforce, organisation and infrastructure to achieve a financially sustainable and resilient operating model. • Create an agile and adaptive organisation. • Deliver the actions set out in the Organisation Improvement Plan, developed in response to the Kerslake review and BIIP. • Budget Monitoring will be undertaken by budget holders and reported to Cabinet and the Corporate Leadership Team on a regular basis.	<u>November Update:</u> During the summer 2016 EMT have worked to agree a clear vision and set of priorities for the Council which was released in a Council Plan document October 2016. Working with trades unions has progressed to enable the Council to reach a point of negotiating a collective agreement on workforce terms and conditions. Agile working has now been established as a stand-alone project in the People Strategy; working with Property and IT the project group is working through key milestone dates to initiate the project. The development of the improvement hub will include a change academy to develop individuals' skill sets in change, to ensure the organisation has the capability and capacity to change in the future.

	The Gap Analysis assessment has enabled the Council to stay on top of its improvement plan. Each action has clear milestones and targets associated with it, which is reported into CLT Quarterly Performance Board. Budget monitoring is reported as part of regular Cabinet, Portfolio Holder and Corporate Leadership Team (CLT) briefings to ensure knowledge of the forecast outturn position is as accurate as possible. This enables immediate action to be taken to address budget pressures.

Governance Statement Issue	
5. <u>Partnership Working</u> **<u>Background Information from AGS</u>** The Council is seeking ways to improve effective partnership working, such as working with neighbouring authorities through establishing the combined authority and taking forward the devolution deal. The Council is looking at ways of working together across a range of agencies, to improve services outcomes and reduce costs. Options may include: • Using or considering alternative delivery vehicles. • Outsourcing of services. • Commissioning services.	
Responsible Directorate: Corporate Resources, People	
Original Proposed Action AGS	**Update/Progress**
The partnership with neighbouring authorities and the devolution deal the Council signed with the Chancellor of the Exchequer in November 2015 are major steps forward for Birmingham and the West Midlands. The Council must continue to work closely together through the next vital stages as it establishes the Combined Authority and begins to implement devolution - making sure that work leads to permanent benefits for the region.	<u>November Update:</u> The West Midlands Combined Authority (WMCA) was formally established in July. Work continues on the implementation of the Devolution Agreement. The Mayoral Order (creating the post of elected mayor and the election in May 2017) was approved in Parliament in September. The Mayoral CA Order (putting in place the devolved powers) will be presented to the Council for approval on 6 December. The Council continues to play a prominent role in the work of the WMCA and is leading the work on devolution strategy and the current negotiations for a second devolution deal. Officers are also leading on housing policy and the Leader of the Council has been given the key Cabinet Portfolio of Economic Growth.

The Future Council Sub programme Outward Looking Partnerships is reviewing the way the Council works with its partners - working equally to a common shared purpose.	During the Autumn, work has been undertaken with partners to develop a vision for the City.
Any transfer, commissioning or outsourcing of services is subject to the development and Cabinet approval of robust business cases.	The Council is exploring new governance arrangements via a children's trust model. The children's trust model has progressed to the scoping/consultation phase after a paper was presented to Cabinet in September 2016. There are currently 2 models being considered and a board is to be set up to oversee this.

Governance Statement Issue	
6. <u>Organisational Changes</u> **<u>Background Information from AGS</u>** The current challenging financial environment has required significant organisational upheaval as well as workforce reductions and compulsory redundancies. These organisational changes can impact on the productivity and efficiency of the organisation through the loss of experienced staff; impacts on the morale of the workforce, with the potential negative consequences on employee relations and increased the potential for industrial action.	
Responsible Directorate: Corporate Resources	
Original Proposed Action AGS	**Update/Progress**
Through the Future Council Programme: Forward the Birmingham Way, a new employee engagement programme is focused on redefining organisational and employee expectations and requirements. In the forthcoming year the significant budget reductions including the proposals for the new workforce contract may strain industrial relations. However, positive local relationships with the trades unions and their understanding of the challenges will contribute to mitigating and managing this.	<u>November Update:</u> The Council has developed a clear approach and programme of work to enable the development of the Future Council. The priorities and objectives of the Council are established along with the design principles to inform the future operating model. Employee engagement networks; Forward Champions, CLT and Managers' Voice have been used to frame the operating model for the organisation to ensure employee ownership, buy-in and understanding. Alongside this, a project has started to define the role of the Birmingham Manager which will be used to inform a number of projects including spans and layers project, to define organisational requirements. Despite the extremely challenging context in relation to reductions in headcount and terms and conditions industrial relations are strong. Consequently in the short term the likelihood of industrial action is low.