| CITY OF WOLVERHAMPTON COUNCIL | **Audit and Risk Committee**<br>11 June 2018 |
|---|---|

**Time** 2.00 pm **Public Meeting?** YES **Type of meeting** Regulatory

**Venue** Committee Room 3 - Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

## Membership

**Chair** Cllr Craig Collingswood (Lab)
**Vice-chair** Cllr Sohail Khan (Con)

| **Labour** | **Independent Member** |
|---|---|
| Cllr Obaida Ahmed | Mr Mike Ager |
| Cllr Harbans Bagri | Mr John Humphries |
| Cllr Mary Bateman | |
| Cllr Philip Bateman MBE | |
| Cllr Jasbir Jaspal | |
| Cllr Barbara McGarrity | |

Quorum for this meeting is two Councillors.

## Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

**Contact** Dereck Francis
**Tel/Email** Tel: 01902 555835 or dereck.francis@wolverhampton.gov.uk
**Address** Democratic Services, Civic Centre, 1st floor, St Peter's Square, Wolverhampton WV1 1RL

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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

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# Agenda

## Part 1 – items open to the press and public

*Item No.* *Title*

**MEETING BUSINESS ITEMS**

1 **Apologies for absence**

2 **Declaration of interests**

3 **Minutes of previous meeting - 12 March 2018** (Pages 3 - 10)
[For approval]

4 **Matters arising**
[To consider any matters arising from the minutes]

**DECISION ITEMS**

5 **External Audit Progress Report and Update** (Pages 11 - 32)
[To receive the update from the Council's external auditors]

6 **Draft Statement of Accounts 2017-2018** (Pages 33 - 252)
[To receive the draft Statement of Accounts for 2017-2018, which is subject to audit and which has been approved by the Director of Finance]

7 **Annual Governance Statement 2017 - 2018** (Pages 253 - 270)
[To review and comment on the contents of the draft Annul Governance Statement]

8 **Annual Internal Audit Report 2017-2018** (Pages 271 - 286)
[To receive an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes]

Agenda Item No: 3

| CITY OF WOLVERHAMPTON COUNCIL | **Audit and Risk Committee**<br>Minutes - 12 March 2018 |
|---|---|

## Attendance

**Members of the Audit and Risk Committee**

Cllr Craig Collingswood (Chair)
Cllr Christine Mills (Vice-Chair)
Cllr Harbans Bagri
Cllr Mary Bateman
Cllr Philip Bateman MBE
Cllr Jasbir Jaspal
Cllr Andrew Wynne
Mike Ager (Independent Member)
John Humphries (Independent Member)

**Employees**

| | |
|---|---|
| Emma Bland | Finance Business Partner |
| Dereck Francis | Democratic Services Officer |
| Peter Farrow | Head of Audit |
| Nathan Hazlehurst | Prevent and Cohesion Officer |
| Paul Lakin | Head of City Development |
| Claire Nye | Director of Finance |
| Hayley Reid | Senior Auditor |
| Mark Wilkes | Audit Business Partner |

**External Auditors – Grant Thornton**
Mark Stocks
Nicola Coombe

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# Part 1 – items open to the press and public

*Item No.* *Title*

1 **Apologies for absence**
An apology for absence was submitted on behalf of Councillor Martin Waite.

2 **Declaration of interests**
No declarations of interests were made.

3 **Minutes of previous meeting - 11 December 2017**
Resolved:
That the minutes of the previous meeting held on 11 December 2017 be approved as a correct record and signed by the Chair.

4 **Matters arising**

Minute 6 (Annual Audit Letter and Grant Certification Work) - Claire Nye, Director of Finance reported on arrangements the Council had put in place to action the external auditors' recommendation regarding monitoring of the funding from the Devolution Deal and the economic growth and any risks this brings to the Council. A team was looking at the Devolution Deal and considering opportunities available from being part of the West Midlands Combined Authority and how the Council would tap into those benefits and opportunities. On the same minute regarding the outcome of the additional internal testing carried out around the housing benefit claim, the Director of Finance reported that two new reports had been built in to identify or prevent errors. These reports were now part of the general housekeeping activity.

Minute 7 (Strategic Risk Register and Strategic Assurance Map and Risk 29 Fire Safety - Public Buildings) - Hayley Reid, Senior Auditor reported that the Council's Private Sector Housing team had responsibility for ensuring private sector landlords carry out necessary works on their properties. It was not felt necessary to include a specific item in the risk register for this area. The position would be reconsidered if the situation changed.

Minute 8 (Internal Audit Update-Quarter Two) - Peter Farrow, Head of Audit reported that a follow up visit had taken place to St Patrick's Primary School to review progress on the implementation of the agreed audit recommendations and he would report back to the next meeting.

Minute 14 (Audit Investigations Update) - the Head of Audit reported that the Council's Monitoring Officer had issued a reminder to Council employees regarding the need for them to register their interests and to keep them up-to-date.

5 **External Audit Plan**

Mark Stocks from the Council's external auditors, Grant Thornton highlighted the key points from the report on their audit plans for the Council for the year ended 31 March 2018.

Referring to the area of work 'Net Pension Liability' included within the audit plan, Councillor Philip Bateman MBE said that he was keen to understand the implications of the collapse of Carillion for the Council and particularly schools. Mark Stocks reported that a lot of companies would have invested in Carillion. The impact would be felt in the construction industry and in facilities management. It would take time to see what happens as a result of the company's collapse.

The Chair asked the external auditors whether there were any areas of concern from their audit work to date. Grant Thornton reported that there were some accounting treatments they were working on with the Council's employees but there were no concerns or issues flagging up. The biggest change had been the new statutory deadline of 31 July 2018 for approval and publication of the audit of the Statement of Accounts for 2017/2018 with the audit opinion. The Council had robust arrangements and whilst the accelerated financial closure arrangements were tight, they were positive that the Council would meet the earlier deadline.

Claire Nye, Director of Finance added that detailed plans were in place and she was comfortable that the Council would meet the 31 July deadline.

Resolved:

That the Audit Plan 2017/2018 from the Council's external auditors, Grant Thornton be noted.

6 **External Audit Communication**

Mark Stocks from the Council's external auditors, Grant Thornton presented the paper 'Informing the Audit Risk Assessment'. It set out some of the potential areas of risk for the external audit together with a management response to a series of questions posed by the auditors. The views of the Committee were invited on the management responses.

Referring to the management response to the auditors' question on 'how the Council encourages staff to report their concerns about fraud', Councillor Philip Bateman MBE asked whether the Council's internet site, which allowed for online reporting of fraud was as visible as it ought to be. The Chair reported that he was confident in that respect. Whilst there was always more that could be done, he was proud of the website reporting access. Peter Farrow, Head of Audit reported that Mark Wilkes, Audit Business Partner had done a lot work on the digital platforms and other electronic routes for reporting fraud. The Council was particularly strong in this area. Councillor Bateman MBE went on to suggest that, as fraud was a key issue, the Communications team be asked to produce an article on the Council's fraud related policies, highlighting the digital channels and other areas for reporting fraud. The Chair commented that he regularly ensured that press releases were issued and there was media coverage of the Committee's meetings. He also participated in radio and media interviews relating to the Council's work on fraud. He would continue to try and maintain a high profile on the Committee's fraud related and wider audit work. The Head of Audit undertook to check whether it was possible to include the details on the digital platforms and electronic routes for reporting fraud alongside of the details that go out in the council tax letters.

Resolved:

That the report of the external auditors, Grant Thornton be noted.

7 **Strategic Risk Register and Strategic Assurance Map**

Paul Lakin, Head of City Development was in attendance to discuss risk 9 - City Centre Regeneration. He gave an update on action being taken to manage risks across the City Centre Regeneration programme and to address the potential for delayed delivery and cost overrun.

Councillor Christine Mills reported that she was impressed with the redevelopment of the Mander Centre but would welcome more movement on the number of retailers located in the Centre. The Head of City Development commented that there was a national problem in the retail sector with most retailers trying to consolidate their commercial stock.

Councillor Philip Bateman MBE commented that a lot of the concerns regarding the retail sector were not within the gift of the Council to resolve. The issue for him was measuring and understanding what was happening with the foot fall in the city.

The Chair reported that he was encouraged by the regeneration activity taking place. He asked whether hotel accommodation was something being looked at. The Head of City Development reported that a piece of work had been undertaken to establish

where the demand points were. The city's hotel accommodation market was not huge but there was a gap at the higher end of the market.

Nathan Hazlehurst, Prevent and Cohesion Officer was also in attendance to report on action being taken to address risk 26 - Community Cohesion. The risk had been transferred to a directorate risk register. He explained the work of the Council in terms of monitoring and responding to community cohesion issues.

In response to questions about the level of attendance at Community Cohesion Forum meetings and any areas of weakness across the city, the Prevent and Cohesion Officer reported that the forum meetings were well attended and that there was more work to do on the Forum's engagement with young people. He also reported that there were different community cohesion issues across the city but overall cohesion was good. An independent review had ranked City of Wolverhampton as the third most integrated place in the UK.

Hayley Reid, Senior Auditor presented the rest of the report on the key risks the Council faced and how the Committee could gain assurance that the risks were being mitigated.

Councillor Christine Mills requested more information and risk 31- City of Wolverhampton College. The Senior Auditor reported that Cabinet had approved work to support the College. Positive discussions had taken place and it was hoped that the risk would be reduced by the time of the next risk register report to the Committee.

Councillor Philip Bateman MBE commented that a big issue for the Council was the ability to move around Wolverhampton and the rest of the conurbation. The deteriorating condition of the highway, the costs to the Council in maintenance, upkeep and insurance claims; the Council's ability to keep up-to-date with highways security all affected your ability to get around the city and the conurbation. He asked if consideration had been given to whether there was a risk to the city's economy from a deteriorating road network.

The Chair also asked when the Committee would receive the findings from the lessons learned review on risk 30 - Civic Halls. Peter Farrow, Head of Audit reported that the completed review report would be referred to the Council's Strategic Executive Board (SEB) then onto Cabinet and thereafter to the Audit and Risk Committee. The Chair asked that if finalised, that it be presented to the next meeting and a member of SEB be invited to attend.

Referring to the same risk, John Humphreys, Independent Member asked whether any information was available from the full risk assessment workshop on 7 February 2018. The Senior Auditor reported that it would be presented to the next meeting with the risk register.

Resolved:

1. That the Strategic Risk Register as at Appendix 1 to the report be noted.

2. That the identification of two new risks be noted:
   - Risk 30 – Civic Halls, due to the issues surrounding the refurbishment of the Civic Halls.
   - Risk 31 – City of Wolverhampton College, as a result of the Council not agreeing a Memorandum of Understanding with the College.

3. That the increase in the risk scores for risk 8 – Business Continuity Management and risk 15 – Emergency Planning due to staffing changes within the Resilience Team be noted.

4. That the amendment of the risk description and the reduction in the assessment for risk 14 – School Improvement to reflect that; 95% (58 out of 61 maintained schools) are now at good or above. Standards within academies will covered by a separate risk where appropriate be noted.

5. That it be noted that the Council have considered the implications of the insolvency of Carillion PLC, it has been decided that no new risks require inclusion in the strategic risk register at this time. However, details of the effect on existing risks are included in appendix 1 where appropriate. The Council will continue to monitor the situation and any new risks or changes to the assessment of current risks will be reported to future Audit and Risk Committee meetings.

6. That the main sources of assurance available to the Council against its strategic risks at Appendix 2 be noted.

8 **Internal Audit Update - Quarter Three**

Peter Farrow, Head of Audit presented the key points from the report on progress made against the 2017-2018 internal audit plan and on recently completed work. He informed the Committee that it would receive the Internal Audit Annual Report 2017-2018 at a future meeting.

Responding to questions the Head of Audit reported that from the arrangements described to him, he had received assurance that the issues highlighted in the Outdoor Public Events audit would be addressed. The Council had successfully run outdoor events, but it was clear from the audit work that there needed to be a consistent approach across the Council on how outdoor events were arranged. Regarding the Woodthorne Primary School audit work, this had been an elongated process of working with the school to address the findings from audit work. The Audit Team would continue to support the school to seek the improvements.

Resolved:

That the contents of the latest internal audit update as at the end of quarter three be noted.

9 **Internal Audit Plan 2018-2019**

Peter Farrow, Head of Audit presented for review and approval the proposed internal audit plan for 2018-2019. Responding to questions the Head of Audit explained the issues that would come into consideration when determining the priority order for the audit work. He was confident that he had the resources to deliver the plan.

Councillor Philip Bateman MBE reported that the rating given to the proposed audit work on 'city economy' and 'transport capital programme prioritisation' supported his concerns about the economic impact of the transportation network. Focusing only on what was happening within the city's boundaries presented a false picture. An example of this was a decision made by South Staffs Council to withdraw a bus service. This would impact on the ability of South Staffs' residents to access parts of the City of Wolverhampton which would have a knock on effect on the city's economy.

The Head of Audit reported that he would look to incorporate consideration given to neighbouring areas and the issues raised on the economic impact of the transportation network.

Resolved:
That the risk based internal audit plan for 2018-2019 be approved.

10 **Review of Fraud Related Policies and Procedures**

Mark Wilkes, Audit Business Partner presented for review and approval three of the Council's fraud related policies and procedures. No major changes were being proposed to these policies that were last approved in 2017. However, due to changes in legislation, the Anti-Money Laundering policy was being updated. The proposed revised document would be presented to a future meeting for approval.

Responding to questions, the Audit Business Partner reported that previously the powers of investigation the Council had in relation to its Anti-Fraud and Corruption policy had been more implied than explicit. It was now the latter in the policy. Regarding the key changes to the Council's money laundering policy, particularly relating to Right to Buy and housing benefits payments, in the past the Council could rely on third party assessments on the source of payments made by an individual. This had now changed and where the Council had any concerns on where funds came from, it was required to undertake more rigorous checks on payments.

Resolved:
That the following Council fraud related policies and procedures be approved:

- Anti-fraud and corruption policy and procedure
- Whistleblowing policy and procedure
- Raising fraud awareness guide

11 **Audit Services - Counter Fraud Update**

Mark Wilkes, Audit Business Partner presented the update report on current counter fraud activities undertaken by Audit Services.

Councillor Philip Bateman MBE commented that the key survey results from the Chartered Institute for Public Finance and Accountancy's (CIPFA's) Annual Fraud and Corruption Tracker report 2017 were reassuring for Wolverhampton. The number and value of fraud cases detected for 2016/2017 were down on the previous year's figures. This showed the value of the counter fraud work carried out by the Council's Audit Services.

The Chair added that he was proud of the Council's proactive approach towards tackling fraud and he commended the Audit Business Partner and his colleagues on their work. He also welcomed the reduction in the number and value of tenancy fraud cases detected in the city but suggested that the figures were still too high.

Peter Farrow, Head of Audit acknowledged that there was always room for improvement and reported that the value of the fraud figures were based on a national average cost to house a family for a year. The main issue would remain was to make the processes as robust as possible to stop the opportunity for fraud.

In response to the Chair, the Audit Business Partner confirmed that there were no audit investigation updates to report to the Committee on this occasion.

Resolved:

That the contents of the latest Audit Services Counter Fraud Update be noted.

12 **West Midlands Combined Authority - Assurance**

Peter Farrow, Head of Audit presented the report on the role and work of the West Midlands Combined Authority's (CA's) Audit, Risk and Assurance Committee. In accordance with a previous request of the Committee, a report on any relevant issues dealt with by the CA's Audit, Risk and Assurance Committee, that related to the assurance the Council could obtain, would be included on the agenda for future meetings.

The Chair reported that the Council's external auditors, Grant Thornton in partnership with the Council would be holding a Midlands Audit Committee Forum on 15 March 2018 at Wolverhampton Art Gallery. David Lane, Independent Chair of the CA Audit, Risk and Assurance Committee would be a guest speaker.

Resolved:

That the role of the West Midlands Combined Authority's Audit, Risk and Assurance Committee and the reliance the Council's Audit and Risk Committee can place upon the assurance they provide be noted.

13 **Payment Transparency**

Peter Farrow, Head of Audit presented the report on the latest position on the Council's payment transparency activity. Since the last report to the Committee in December 2017 there had been no requests for information from the public (armchair auditor requests).

Resolved:

That the Council's current position with regards to the publication of all its expenditure be noted.

14 **CIPFA Audit Committee Update - Issue 24**

The Committee received the latest edition of regular briefings issued by the Chartered Institute for Public Finance and Accountancy (CIPFA) for audit committee members of public bodies. The focus of the update was the contribution the audit committees could make to supporting good audit risk management practice. Amongst other points, the update posed five key questions concerning risk management that audit committee members should ask themselves. Hayley Reid, Senior Auditor gave a brief response on the Council's position in respect of the five key questions.

Resolved:

That the contents of the latest CIPFA Audit Committee Update, Issue 24 – The Audit Committee Role in Risk Management and a Regular Briefing on Current Issues be noted.

15 **Vote of thanks**

The Chair thanked members, employees and the Council's external auditors for their attendance and participation in meetings of the Committee during the 2017/2018 Municipal Year. He informed the Committee that Councillor Christine Mills who would not be seeking re-election at the 2018 Local Government elections. He thanked her for her valued contributions to the work of the Committee and wished her well for the future.

Councillor Philip Bateman MBE thanked Councillor Craig Collingswood for the way he had chaired the Committee during the year. He also paid tribute to Councillor Christine Mills of whom he said would be missed at the Committee as well as on the Council.

Agenda Item No: 5

CITY OF WOLVERHAMPTON COUNCIL

# Audit and Risk Committee

11 June 2018

| | | |
|---|---|---|
| **Report title** | External Audit Progress Report and Update | |
| **Cabinet member with lead responsibility** | Councillor Louise Miles<br>Resources | |
| **Accountable director** | Claire Nye, Director of Finance | |
| **Originating service** | Strategic Finance | |
| **Accountable employee(s)** | Emma Bland<br>Tel<br>Email | Finance Business Partner<br>01902 553928<br>Emma.Bland2@wolverhampton.gov.uk |
| **Report to be/has been considered by** | None | |

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**Recommendation for noting:**

The Committee is asked to note:

1. The Progress Report and Update provided by Grant Thornton.

## 1.0 Purpose

1.1 To update the Audit and Risk Committee on progress made by Grant Thornton in delivering their responsibilities as the Council's external auditors.

## 2.0 Background

2.1 Annually at the July Committee, Grant Thornton customarily report on progress made against their Audit Plan and provide an update on technical matters, sector issues and developments. A copy of the report is attached at Appendix A.

## 3.0 Financial Implications

3.1 The statement, and the forthcoming audit of those statements by the external auditors, is an important element of the accountability and transparency of the Council's finances. [JB/31052018/K]

## 4.0 Legal implications

4.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2017/18 Statement of Accounts be produced in accordance with proper practice.

4.2 This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved and published by 31 July 2018. [RB/31052018/C]

## 5.0 Equalities implications

5.1 There are no equality implications arising from this report.

## 6.0 Environmental implications

6.1 There are no environmental implications arising from this report.

## 7.0 Human resources implications

7.1 There are no human resource implications arising from this report.

## 8.0 Corporate landlord implications

8.1 There are no implications for the Council's property portfolio arising from this report.

## 9.0 Schedule of background papers

9.1 There are no relevant preceding reports.

## 10.0 Appendices

10.1 Appendix 1 – City of Wolverhampton Council Audit Progress Report and Sector Update

Grant Thornton

An instinct for growth™

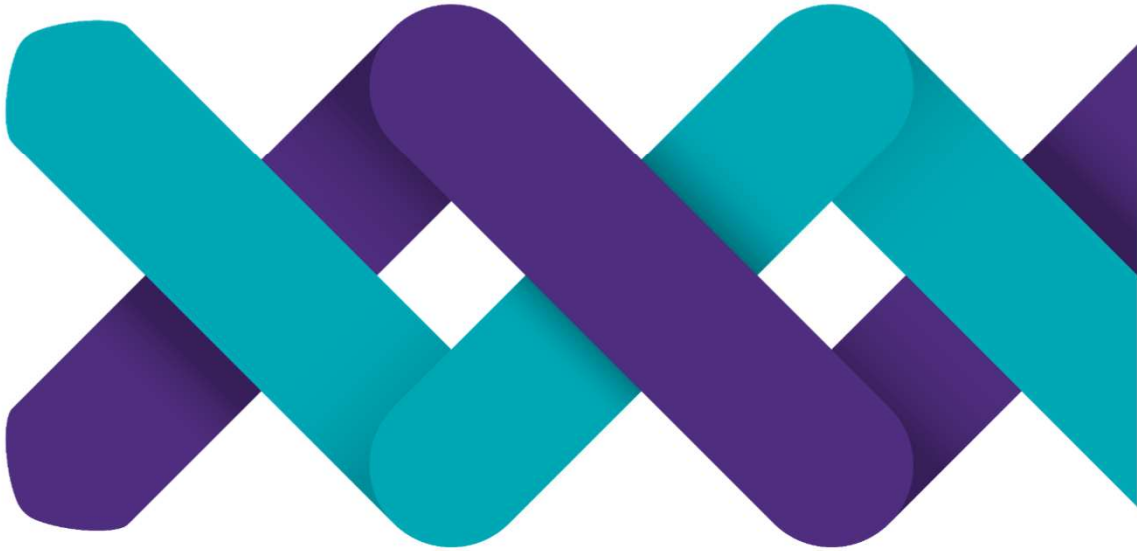
# Audit Progress Report and Sector Update

City of Wolverhampton Council

Year ending 31 March 2018

13 June 2018





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# Introduction

**Mark Stocks**

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## This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Risk Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk .

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at June 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January and March 2018. Our interim fieldwork visit included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit are summarised at page 6 to 8.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on 11 June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.



## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We made our initial risk assessment to determine our approach in December 2017 and reported this to you in our Audit Plan in March 2018. Our risk assessment identified the following VFM significant risks:

- financial resilience
- Strategic asset management

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

We held our planning meeting with officers responsible for compiling the claim in March, and work is underway by the Council in the preparation of the workbooks that we use to undertake our testing.

### Meetings

We met with Finance Officers throughout our interim visit and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in December to discuss the Council's strategic priorities and plans, with a follow up meeting held with your Director of Finance in March 2018.

### Events

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

| 2017/18 Deliverables | Planned Date | Status |
|---|---|---|
| **Fee Letter**<br>Confirming audit fee for 2017/18. | April 2017 | Complete |
| **Accounts Audit Plan**<br>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements. | March 2018 | Complete |
| **Interim Audit Findings**<br>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. | This report refers | Complete |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the July Audit Committee. | July 2018 | Not yet due |
| **Auditors Report**<br>This is the opinion on your financial statement, annual governance statement and value for money conclusion. | July 2018 | Not yet due |
| **Annual Audit Letter**<br>This letter communicates the key issues arising from our work. | August 2018 | Not yet due |
| **Annual Certification Letter**<br>This letter reports any matters arising from our certification work carried out under the PSAA contract. | December 2018 | Not yet due |

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed | Conclusions and recommendations |
|---|---|---|
| **Internal audit** | We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.<br>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities. | Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. |
| **Entity level controls** | We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:<br>• Communication and enforcement of integrity and ethical values<br>• Commitment to competence<br>• Participation by those charged with governance<br>• Management's philosophy and operating style<br>• Organisational structure<br>• Assignment of authority and responsibility<br>• Human resource policies and practices | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |

# Results of Interim Audit Work continued

| | Work performed | Conclusions and recommendations |
|---|---|---|
| **Review of information technology controls** | Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.<br>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding. | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements |
| **Walkthrough testing** | We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.<br>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding. | Our work has not identified any weaknesses which impact on our audit approach. |
| **Journal entry controls** | We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.<br>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention. | Our work to date has not identified any weaknesses which impact on our audit approach. We will top up our testing to sample any journals we identify as unusual for months 10 to 12 as part of our audit commencing in June. |

# Results of Interim Audit Work continued

| | Work performed | Conclusions and recommendations |
|---|---|---|
| **Early substantive testing** | We have performed substantive work in the following areas:<br><br>**Grants Revenues:** We have selected all significant grants to test and also selected a sample of residual items. We have examined supporting documentation to determine the accuracy of the item and that it is valid revenue for the financial year. If there are any conditions, we have considered whether there is evidence that they have been met and where eligible costs is a condition of the funding, review costs charged to the project and document whether they agree with the terms of the agreement.<br>We will top up this testing as part of our next audit visit, including whether the revenue has been correctly accounted for in the financial statements.<br><br>**Other Revenues:** We have sampled a selection of other income, up to and including month 11. As part of our year end audit, we will top up this testing to include month 12 and ensure that the items we have tested are appropriately accounted for in the Council's financial statements.<br><br>**Council tax:** We have obtained and agreed precept demand amounts to correspondence. We will need to ensure as part of our final audit that these can be traced and reconciled to the Collection Fund statement.<br><br>**Third party confirmations:** We have obtained a list of all of the Council's Investments, Borrowings and Cash holdings, and subsequent to letters of authority being received from the council, have contacted the counterparties to obtain third party confirmation of balances held in the Council's name as at 31 March 2018. We will trace these balances through to the financial statements once received.<br><br>**Additions:** We have sample tested property, plant and equipment additions from months 1 to 9. When the draft financial statements are recieved we will ensure that we can trace the items tested to ensure they have been reflected appropriately in the Tangible Fixed Assets note.<br><br>**Employee Remuneration:** We have performed substantive analytical procedures for months 1 to 10 on the Council's payroll. This involves deriving an expectation of what the costs are likely to be, and comparing the actual costs against these expectations.<br><br>**Operating Expenditure:** we have sampled a selection of operating expenditure for months 1 to 9. As part of our year end audit, we will top up this testing to include month 12 and ensure that the items we have tested are appropriately accounted for in the Council's financial statements. | Our work to date in these areas has not identified any issues which we wish to bring to your attention. |

# Results of Interim Audit Work continued

| | Work performed | Conclusions and recommendations |
|---|---|---|
| **Emerging Issues** | **Guarantees:** The Council has a number of pension guarantees in place with partner organisations who are admitted to the West Midlands Pension Fund. During 2017-18 the Council has also provided a new pension guarantee and new financial guarantee to the City of Wolverhampton College.<br><br>We have discussed these proposals with finance staff prior to the guarantees being made, to ensure that the accounting treatment had been considered.<br><br>The Council have prepared disclosures in relation to these guarantees for the draft financial statements and provide them to us for comment. | We have provided comments for the Council to consider on their proposed disclosures.<br><br>We will revisit and test the assumptions made in determining the accounting of these guarantees, as part of our audit to check that the conclusions drawn were still appropriate as at 31 March 2018. |

# Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.



Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# Financial sustainability of local authorities 2018

## This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO last looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review.. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

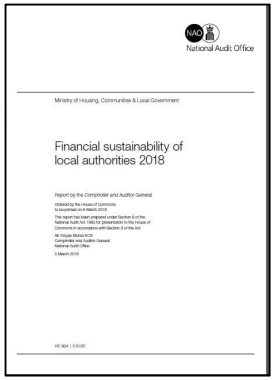
There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.

**49.1%**
real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

**28.6%**
real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

**1**
number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available


National Audit Office

Ministry of Housing, Communities & Local Government

Financial sustainability of local authorities 2018

Report by the Comptroller and Auditor General

Ordered by the House of Commons to be printed on 6 March 2018

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

5 March 2018

HC 864 | £10.00

# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.



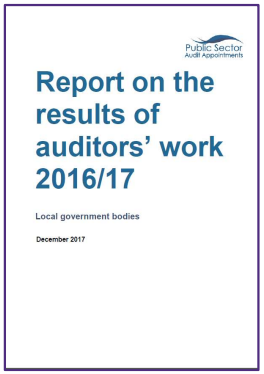
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.


Public Sector Audit Appointments

Report on the results of auditors' work 2016/17

Local government bodies

December 2017

# Changes to the prudential framework of capital finance

## The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance "Changing methods for calculating MRP", which applies from 1 April 2018.

Key changes are noted below.

**Statutory Guidance on Local Authority Investments**

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities' core objectives include 'service delivery objectives and/or placemaking role.' This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

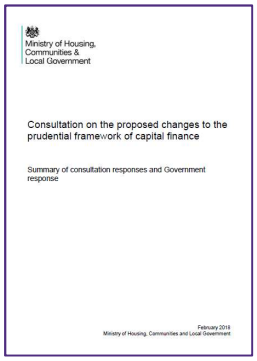
**Minimum Revenue Provision Guidance**

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.


Ministry of Housing, Communities & Local Government

Consultation on the proposed changes to the prudential framework of capital finance

Summary of consultation responses and Government response

February 2018
Ministry of Housing, Communities and Local Government

### Changes to capital finance framework

**Challenge question:**

Has your Director of Finance briefed members on the impact of the changes to the prudential framework of capital finance**?**

# CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.
The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.


CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

> The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

.The Code is available in hard copy and online.

## CIPFA Publication

**Challenge question:**

Has your Director of Finance briefed members on the impact of the changes to the prudential code?

# The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

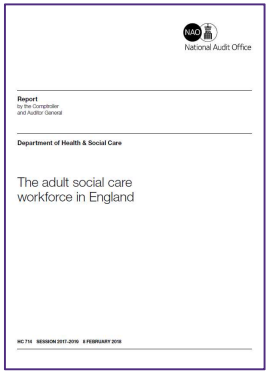
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7% However, demographic trends suggest that demand for care will continue to increase and people's cares needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.


National Audit Office

Report
by the Comptroller
and Auditor General

Department of Health & Social Care

The adult social care
workforce in England

HC 714 SESSION 2017-2019 8 FEBRUARY 2018

# Overview of the General Data Protection Regulation (GDPR)

| What is it? | What's next? |
| --- | --- |
| The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations. | Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018. |

**How will this affect you?**

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

**What organisations need to do by May 2018**

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.



### Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

### Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

### Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

## Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

# Supply Chain Insights tool helps support supply chain assurance in public services

## Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."

### The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

**Challenge question:**

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?

# Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/

http://www.cfoinsights.co.uk/

http://supplychaininsights.grantthornton.co.uk/

PSAA website links

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

MHCLG website links

https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition

https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition

CIPFA website link

http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book

National Audit Office link

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/

https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/

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Agenda Item No: 6

CITY OF WOLVERHAMPTON COUNCIL

# Audit and Risk Committee

11 June 2018

| | | |
|---|---|---|
| **Report title** | Draft Statement of Accounts 2017-2018 | |
| **Cabinet member with lead responsibility** | Councillor Louise Miles<br>Resources | |
| **Wards affected** | All | |
| **Accountable director** | Claire Nye, Director of Finance | |
| **Originating service** | Strategic Finance | |
| **Accountable employee(s)** | Emma Bland<br>Tel<br>Email | Finance Business Partner<br>01902 553928<br>Emma.Bland2@wolverhampton.gov.uk |
| **Report to be/has been considered by** | None | |

**Recommendations for noting:**

The Committee is asked to note:

1. That the Director of Finance approved the Draft Statement of Accounts 2017-2018 on 31 May 2018, in accordance with the 31 May 2018 deadline set by the Accounts and Audit Regulations 2015.

2. That the 2017-2018 Draft Statement of Accounts is to be audited by Grant Thornton UK LLP from 11 June through to 9 July, and that any material changes required as a result of the audit will be reported to the Audit and Risk Committee on 23 July.

3. That formal approval by the Council and publication of the 2017-18 Statement of Accounts is required by 31 July 2018 (Accounts and Audit Regulations 2015).

4. That the Statement of Accounts incorporates a copy of the Annual Governance Statement as required by the Accounts and Audit Regulations 2015.

## 1.0 Purpose

1.1 The draft Statement of Accounts for 2017-2018, which is subject to audit, has been approved by the Director of Finance and is appended to this report.

## 2.0 Background

2.1 The draft Statement of Accounts is required by statute (The Accounts and Audit Regulations 2015) to be prepared and approved by the Section 151 Officer by 31 May 2018.

2.2 A copy of the draft Statement of Accounts is attached at Appendix 1 and can also be found at http://www.wolverhampton.gov.uk/article/3050/Statement-of-Accounts. This will now be audited by the Council's appointed external auditors, Grant Thornton, during June and July, following which they will report their findings to the Audit and Risk Committee on 23 July. At the same time the final audited Statement of Accounts to be published by the Council will be presented to the Committee for approval.

2.3 The statutory deadline for publication of the audited Statement of Accounts is 31 July 2018.

2.4 The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement is prepared in accordance with International Financial Reporting Standards (IFRS).

## 3.0 Financial Implications

3.1 The statement, and the forthcoming audit of those statements by the external auditors, is an important element of the accountability and transparency of the Council's finances. [EB/01062018/E]

## 4.0 Legal implications

4.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2017-2018 Statement of Accounts be produced in accordance with proper practice.

4.2 This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 31 May 2018 and published by 31 July 2018.
[RB/01062018/S]

## 5.0 Equalities implications

5.1 There are no equality implications arising from this report.

## 6.0 Environmental implications

6.1 There are no environmental implications arising from this report.

## 7.0 Human resources implications

7.1 There are no human resource implications arising from this report.

## 8.0 Corporate landlord implications

8.1 There are no implications for the Council's property portfolio arising from this report.

## 9.0 Schedule of background papers

9.1 There are no relevant preceding reports.

## 10.0 Appendices

10.1 Appendix 1 - Draft Statement of Accounts 2017-2018

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# Statement of Accounts

## 2017-2018



wolverhampton.gov.uk

CITY OF WOLVERHAMPTON COUNCIL

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# 1. NARRATIVE REPORT

**Important Note for Readers of the Accounts**

Local authority accounts, like those of any organisation, are prepared to comply with a series of rules and conventions set by the accounting profession. However, for local authorities there are many types of transaction where the law, which takes precedence, requires a different treatment from the accounting rules. This effectively means that local authorities are trying to simultaneously fulfil two conflicting sets of rules when preparing their accounts.

This conflict is addressed by having authorities present a set of financial statements which comply with the accounting rules, followed by a reconciliation of those statements to the accounts as prepared under the legal rules. This reconciliation essentially takes the form of a list of adjustments for items which must be in the accounts per the accounting rules but are not allowed in them under law, and vice versa.

It is the legal rules that must be used when calculating budget requirements, council tax and housing rents. As a result, all the Council's internal reporting and decision-making is based purely on accounts prepared under the legal rules. The only time it prepares accounts that comply with the accounting rules is when it prepares this document. It is crucial to bear this in mind when reading the statements.



**Purpose and Contents of this Document**

The purpose of this document is to show the Council's financial performance over the course of the year, and its financial position at the end of the year. It also provides some information about factors that may affect the Council's financial performance in the future.

**Section 2** contains the statement of responsibilities and sets out the roles and responsibilities of the Council and of the Director of Finance in preparing the statement of accounts. The independent auditors' report is included in **Section 3**. This report draws reader's attention to any important information they might need to consider when reading the statements.

**Section 4** contains the financial statements prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). These comprise four main statements, and a series of notes. The four main statements are:

The Comprehensive Income and Expenditure Statement – this summarises all expenditure, income, gains and losses for the Council during the year.

The Balance Sheet – this shows all the Council's assets, liabilities and reserves at the end of the financial year. Assets are either items that the Council owns and can use or sell in the future, or money that it is owed by other parties. Liabilities are money owed by the Council

to other parties. Reserves fall into two categories: usable reserves are funds that the Council has available to spend in the future, while unusable reserves are amounts that have come about purely from accounting adjustments and are not therefore available to spend.

The Movement in Reserves Statement – this shows the amounts in the Council's reserves, and how they have changed over the course of the year.

The Cash Flow Statement – this summarises all the Council's payments and receipts over the course of the year. The fundamental difference between this statement and the Comprehensive Income and Expenditure Statement is that it doesn't include adjustments to comply with the accounting concept of accruals.

The notes to the accounts provide additional information about the main statements, or items that the Council is required by law or by the Code to include in the statement. The notes are:



**Note 1** Expenditure and Funding Analysis - notes showing how expenditure is allocated for decision making purposes between the Authority's directorates and how the Comprehensive Income and Expenditure Statement reconciles to the General Fund.

**Note 2** Income and Expenditure – this note provides information about a number of specific areas of income and expenditure required by law or by the Code.

**Note 3** Other Operating Expenditure.

**Note 4** Financing and investment Income and Expenditure.

**Note 5** Taxation and Non-specific Grant Income and Expenditure.

**Note 6** Current Receivables and Payables – this note summarises how much money was owed to the Council at the end of the year, and how much the Council owed other parties.

**Note 7** Provisions and Contingent Liabilities – this note provides information about things for which the Council knows it will or may have to pay money to other parties, but there is uncertainty about one or more elements of that payment. This may be the amount of the payment, when it has to be paid, or even whether the Council will actually have to make a payment.

**Note 8** Non-Current Assets – this note provides information about the Council's non-current assets, which are assets that it uses for more than one year.

**Note 9** Employee Pensions – this note provides information about employee pensions, including the net pensions' liability (the difference between current pension commitments and the assets available to fund those) at the end of the year

**Note 10** Financial Instruments – this note provides information about the Council's financial instruments, which are assets or liabilities entered into under contracts.

**Note 11** Members of the City of Wolverhampton Council Group and Other Related Parties – the Council has relationships with a number of other organisations that readers should be aware of when reading the accounts. This note provides information about these relationships.

**Note 12** Trust Funds – this note provides information about the trust funds that the Council manages on behalf of other people.

**Note 13** Reconciliation of the Financial Statements to the Statutory Accounts – as mentioned earlier, there are many differences between the financial statements and the legal accounts that the Council uses to manage its finances. This detailed note analyses all those differences for interested readers.

**Note 14** Notes to the Cash Flow Statement - these notes provide more detail relating to certain items included in the cash flow statement.

**Note 15** Accounting Policies – this note describes the policies that have been used by the Council to prepare these statements, changes in those since last year, and any significant judgements in applying these policies that had to be made when preparing the statements.

**Section 5** provides a set of financial statements and associated notes relating to the Housing Revenue Account. By law, the Council must account for its council housing service separately from other services, to ensure that rents only pay for housing (and likewise, that council tax does not subsidise housing).

**Section 6** contains statements for the Collection Fund. These show how much Council Tax was raised in Wolverhampton during the year, and how it was allocated between the Council, Fire and Police authorities. The Collection Fund also provides details of Non-Domestic Rates collected by the Council on behalf of Central Government and amount retained by the Council and allocated to the Fire authority.

**Section 7** provides the financial statements of West Midlands Pension Fund. These are separate from the Council's accounts, but because the Council is the administering body it is required to include the Pension Fund's accounts alongside its own. They follow a similar format to the Council's accounts, with two main statements followed by a series of notes.

**Section 8** is the Council's Annual Governance Statement. This provides important information about how the Council is run and, in particular, how it manages key risks.

Finally, there is a glossary at **Section 9**, which describes many of the technical accounting terms and abbreviations used in these statements.

**Note on Group Accounts**

The Council owns three other organisations, Wolverhampton Homes Limited, Yoo Recruit Limited and WV Living (City of Wolverhampton Housing Company Limited). As a result of this the Council is required to produce group accounts. Yoo Recruit Limited became a wholly-owned subsidiary of the Council in 2013-2014; WV Living became a wholly-owned subsidiary of the Council in 2016-2017. As the impact on the group accounts is considered by the Council, to not be material – Yoo Recruit Limited and WV Living have not been consolidated into the group accounts. Wolverhampton Homes Limited is an arm's length management organisation (ALMO) which was established in 2005 to manage and maintain most of the Council's housing stock and is wholly owned by the Council. The company's accounts have been wholly consolidated in the group elements of the financial statements.

The group accounts combine the accounts of the Council and Wolverhampton Homes Limited and show them as if they were one. Throughout the financial statements (Section 4) the numbers in italics relate to the group. Non-italic numbers relate to the Council only. These figures are usually combined in the same table, but occasionally owing to space, they are shown in separate tables. Where there is only one figure given, this means that the figure is the same for the group and the Council.

Where the Council determines that the overall balance of control of schools lies with the Council those schools' assets, liabilities, reserves and cash flows are recognised in the Council financial statements and not the Group Accounts. Therefore, schools' transactions, cash flows and balances are recognised in the financial statements of the Council as if they were the transactions, cash flows and balances of the Council. Academies and other schools such as voluntary aided schools, where control does not lie with the Council, are excluded from the Council's financial statements.

# 1. NARRATIVE REPORT - THE MEDIUM TERM FINANCIAL STRATEGY

**The Corporate Plan**

In collaboration with partners across Wolverhampton the Vision 2030 document captures the aspirations and priorities for the City Vision2030. It is in this context that the City of Wolverhampton Corporate Plan is developed. The Corporate Plan sets out the way in which the Council intends to develop and improve its services and, in conjunction with other plans and partners, plays an important role in ensuring that the Council's strategic objectives are achieved for the people and the City of Wolverhampton.

The Corporate Plan does not cover everything that the Council does, but it focuses on a combination of those issues that matter most to the local people, the national priorities set by Central Government and the unique challenges arising from the city's changing social, economic and environmental contexts. The Corporate Plan can be found here CorporatePlan

The plan is a key component of our corporate planning and performance management. It links the strategic priorities of the Council directly to the activities of each individual employee. It includes indicators for improving overall Council performance, services and the way the Council works.



**Financial Performance 2017-2018**

**General Fund**

In March 2017, the Council approved a budget incorporating a budget reduction target of £23.4 million for 2017-2018. The following table compares the Council's General Fund outturn for 2017-2018 to its budget. It analyses spend by Directorate, which is the format used for internal reporting to management. This table is calculated in line with the legal requirements. As the table shows, the Council's outturn for 2017-2018 was a net underspend of £800,000. After taking into account net transfers to/from earmarked reserves, the General Fund Balance remains at £10.0 million and earmarked reserves total £55.7 million at the end of the financial year.

| Service | 2017-2018 Net Controllable Budget £m | 2017-2018 Net Controllable Outturn £m | Total Variation Over/(Under) £m |
|---|---|---|---|
| Place | 40.9 | 41.0 | 0.1 |
| People | 116.2 | 116.2 | - |
| Corporate Services (including Education) | 37.0 | 37.0 | - |
| Corporate Budgets | 28.5 | 27.9 | (0.6) |
| **Net Budget Requirement** | **222.6** | **222.1** | **(0.5)** |
| Funding: | | | |
| Government Grant (General) | (59.4) | (61.8) | (2.4) |
| Business Rates | (70.5) | (70.5) | - |
| Enterprise Zone Business Rates | (1.8) | (1.5) | 0.3 |
| Council Tax | (90.9) | (90.9) | - |
| Collection Fund Deficit | 2.9 | 2.9 | - |
| Budgeted Use of Reserves | (2.9) | (1.1) | 1.8 |
| **Total Funding** | **(222.6)** | **(222.9)** | **(0.3)** |
| | | | |
| **Net Budget (Surplus)/Deficit** | **-** | **(0.8)** | **(0.8)** |

**Housing Revenue Account (HRA)**

The outturn position for the year was an operating surplus of £23.6 million, compared to a budgeted surplus of £16.8 million. This position is net of a revaluation adjustment of £71 million included in the income and expenditure statement but not in the HRA balance. £21.6 million of the surplus has been set aside by the council as provision for the redemption of debt. £2.0 million of the variance has been retained in the HRA reserve. This has the major advantage of creating additional 'headroom' under the HRA borrowing limit as set by law, which will enable the Council to pay for additional investment in its houses in the future.

The operating surplus compared to the budgeted surplus was primarily due to the impact of accounting treatment of depreciation calculated on a componentised basis and a lower than budgeted increase to the bad debt provision.

| | Budget 2017-2018 £m | Outturn 2017-2018 £m | Variance Over/(Under) £m |
|---|---|---|---|
| Income | (97.8) | (97.1) | 0.7 |
| Expenditure | 70.1 | 63.3 | (6.8) |
| **Net Cost of Services** | **(27.7)** | **(33.8)** | **(6.1)** |
| Net Cost of Borrowing and Investments | 10.9 | 10.2 | (0.7) |
| **Surplus for the Year** | **(16.8)** | **(23.6)** | **(6.8)** |
| | | | |
| **Allocation of Surplus for the Year** | | | |
| Provision for Redemption of Debt | (16.8) | (21.6)) | (4.8) |
| Transfer to/(from) Reserves | - | (2.0) | (2.0) |
| **Total** | **-** | **-** | **-** |



**Capital Programme**

Capital expenditure by the Council during 2017-2018 totalled £101.3 million, as set out in the following table. This was £30.7 million under budget primarily due to slippage into future years and cost reductions.

| Expenditure | Approved Budget 2017-2018 £m | Outturn 2017-2018 £m | Variation Over/(Under) £m |
|---|---|---|---|
| **General Fund** | | | |
| Corporate | 29.7 | 17.2 | (12.5) |
| People | 2.9 | 2.0 | (0.9) |
| Place | 60.2 | 45.8 | (14.4) |
| **Total General Fund** | **92.8** | **65.0** | **(27.8)** |
| | | | |
| **Housing Revenue Account** | **39.2** | **36.3** | **(2.9)** |
| | | | |
| **Total Expenditure** | **132.0** | **101.3** | **(30.7)** |

**Items of Interest in the Accounts**
This section discusses some of the key items of interest in this year's statement of accounts.

**Provisions and Contingent Liabilities**
The Council's total level of provisions increased by £1.0 million (net) over the course of the year. Total provisions at 31 March 2018 stood at £14.6 million: further details are provided in Note 9A to the Financial Statements.

**Capital Expenditure**
The Council once again successfully managed a large capital expenditure programme in 2017-2018, resulting in additions to non-current assets of £80.9 million, together with other capital expenditure of £20.4 million. The main additions were on council dwellings (£36.3 million), other land and buildings (£25.4 million) and infrastructure assets (£10.2 million), which reflects investment in the highway network. Information about non-current assets held by the Council can be found in Note 10.



**Net Pensions Liability**
The Council's net pension liability shows the extent to which its existing pension commitments to employees and former employees exceed the assets currently available to meet those commitments. This liability decreased by £21.5 million during 2017-2018, made up of a decrease of £19.8 million in liabilities, and an increase of £1.7 million in assets. The main reasons for the net movement were gains of £30.3 million resulting from changes in actuarial assumptions, net interest payable of £16.9 million, and other net expenditure of £8.1 million. Note 6 to the Financial Statements provides further information on employee pensions.

In practice, the value of the net pension's liability is not entirely meaningful, because pension payments will generally not need to be made for many years, and the Pension Fund plans over long timescales as a result. Furthermore, the amount the Council has to charge to its revenue accounts is the amount of employee contributions payable for the year, and not the costs calculated under the accounting rules. It is also important to note that the calculation of the net pensions liability relies on a number of complex judgements and assumptions, variations in which can lead to significant differences in the outcome: this is discussed in Note 17C to the Financial Statements.

**Borrowing Facilities and Capital Borrowing**
The Council borrows to part-fund its capital expenditure programme. As a local authority, the Council can borrow funds from the Public Works Loan Board (UK Debt Management Office), which allows the Council to benefit from the relatively low cost of Government borrowing. At 31 March 2018, its total borrowing portfolio stood at £672.9 million, of which £555.1 million is owed to the Public Works Loan Board, £103.8 million to private sector lenders and £14.0 million temporary loans. The Council's borrowing activities are governed by the Prudential Code for Capital Finance in Local Authorities

(CIPFA). Please note borrowings on the balance sheet are higher due to £4.8 million accrued interest and a £5.4 million difference between the LOBO principal cash value and amortised cost (under the Code of Practice).

## The Medium Term Financial Strategy 2018-2019 to 2019-2020

### General Fund

The Council's General Fund Medium Term Financial Strategy (MTFS) has been prepared in an environment of change and uncertainty that is unprecedented in recent years. Several factors have combined to create a very challenging financial situation, which is expected to continue for the foreseeable future.

### Economic Conditions

The UK economy has generally been performing weakly since the 'credit crunch' crisis of 2007-2008, following several years of consistently high economic performance since the mid-1990s. Price inflation in the UK has also generally been high during the last few years. The main impacts of these economic conditions on the Council have included:

- A reduction in spending power;
- Lower borrowing costs, as a result of UK Government debt becoming more attractive to investors, although this has to be considered against the significant reduction in return on investments that has resulted;
- A significant reduction in income;
- An increase in demand for services.

There continues to be uncertainty about future economic conditions which serves to make medium term financial planning even more challenging for the Council.

### Social and Demographic Factors

The City of Wolverhampton is amongst the most densely populated local authority areas in England with 252,987 (2014 mid-year estimate) people living in its 26.8 square miles. In addition, the latest Indices of Deprivation (2015) indicate that Wolverhampton is more deprived than it was five years before (2010), a decline from the 20th most deprived to the 19th (out of 326 councils). Although it is important to note that deprivation in the city continues to be concentrated in a number of 'hot spots'.

In addition, the city's demographic profile is changing, attracting new residents and increasing diversity, and as a result Wolverhampton's population is projected to increase, by about 5,700 (2.3%) between 2014 and 2024. This growth rate is on par with the Black Country average yet below the national

average which, therefore, suggests that if population remains a dominant factor for the distribution of Government grants then Wolverhampton will continue to receive a declining share of those resources.

The projected increase in the population and, in particular, the number of younger and older people is likely to mean that services relating to supporting families and individuals will experience increased demand and therefore cost.

Other significant local factors include relatively high levels of unemployment and the depressed state of the local housing market, both of which increase demand for council services and the need for further investment in the city.

**The Medium Term Financial Strategy**

Whilst the Council's financial planning process is driven by the annual statutory budget cycle, its horizons extend to the medium term. The Medium Term Financial Strategy is a critical part of the Council's planning and performance framework and is kept under continuous review. The Medium Term Financial Strategy, as approved by Full Council in March 2018 is summarised in the table below.



| | 2018-2019 £m | 2019-2020 £m |
|---|---|---|
| Net Expenditure Budget | **229.1** | **246.5** |
| General Funding | **(229.1)** | **(227.0)** |
| **Cumulative Projected Deficit** | **-** | **19.5** |
| **Annual Projected Deficit** | **-** | **19.5** |

The Council has been able to set a balanced budget for 2018-2019 without the use of general reserves however, as the table above shows, the Council forecasts that it will need to save a further £19.5 million by 2019-2020. These budget reductions are in addition to £28.3 million of budget reductions that are already planned and built into the Medium Term Financial Strategy. Further to this, the Council has already identified budget reductions in excess of £200 million over the last eight financial years.

It is particularly challenging to project key assumptions over the medium-term period, however, they have been adjusted based upon the information available at present and professional judgement. It is important to note that, due to external factors, budget assumptions remain subject to significant change, which could, therefore, result in alterations to the financial position facing the Council.

The Financial Plan outlines the Council's approach to tackling the financial challenges. The Council's strategic approach to address the deficit is to:

- Manage demand for core services by using early intervention to help, for example, troubled families and vulnerable adults live unsupported, independent lives;
- Investment in technology to enable transformation of services;
- Maximisation of commercialisation opportunities.

The Council does not want to simply manage decline and therefore must invest in the future through:

- Improving educational attainment and skills;
- Encouraging enterprise and business, and private sector employment and to stimulate economic activity through capital investment.

**Housing Revenue Account**

The Council is planning to utilise the freedoms and resources resulting from the introduction of self-financing in April 2012 to continue to develop new affordable housing in the city.

An updated HRA business plan was approved in January 2018. The HRA is expected to have sufficient resources to fund £1.7 billion of capital works that will be required to its houses over the next 30 years, as well as meeting its management and maintenance obligations over the same period. In addition, savings achieved through a review of the capital programme and other changes has released resources that will enable an additional 600 new homes to be built over the next four years.

In terms of 2018-2019, the plan includes an average rent decrease of 1% in line with the requirements of the Welfare Reform and Work Bill. The table below shows the approved budget for 2018-2019, along with forecasts for the next two years.

| | Budget 2018-2019 £m | Forecast 2019-2020 £m | Forecast 2020-2021 £m |
|---|---|---|---|
| **Income** | | | |
| Gross Rents – Dwellings | (89.7) | (90.7) | (91.7) |
| Gross Rents - Non-Dwellings | (0.8) | (0.8) | (0.8) |
| Charges to Tenants for Services and Facilities | (6.0) | (6.7) | (6.6) |
| **Total Income** | **(96.5)** | **(98.2)** | **(99.1)** |
| | | | |
| **Expenditure** | | | |
| Management and Maintenance | 46.6 | 46.6 | 47.6 |
| Depreciation of Long Term Assets | 22.0 | 22.0 | 21.9 |
| Net Financing Costs | 10.4 | 13.9 | 15.3 |
| Provision for Bad Debts | 2.2 | 2.2 | 2.5 |
| **Total Expenditure** | **81.2** | **84.7** | **87.3** |
| | | | |
| **Balance** | **(15.3)** | **(13.5)** | **(11.8)** |

**Capital Programme**

Capital expenditure is investment in the Council's property, plant, equipment and other long-life assets. It can also include investment in assets owned by other parties, in certain circumstances. Capital funding has declined significantly at a national level, but nonetheless the Council has been able to put together a capital programme that includes major projects such as Primary and Secondary School Expansion Programmes, City Development, WV Living, New Build Programme and West Midlands Combined Authority Initiatives. The table below shows the Council's capital programme for the next five years, as approved by Full Council.

| | 2018-2019 £m | 2019-2020 £m | 2020-2021 £m | 2021-2022 £m | 2022-2023 £m | TOTAL £m |
|---|---|---|---|---|---|---|
| **Forecast Expenditure** | 212.1 | 154.4 | 109.4 | 57.8 | 37.3 | 571.0 |

The following table lists some of the main projects in 2018-2019:

| Project | Forecast Expenditure 2018-2019 £m |
|---|---|
| **Corporate** | |
| Primary School Expansion Programme | 22.6 |
| WV Living | 18.8 |
| West Midlands Combined Authority Initiatives | 15.0 |
| Secondary School Expansion Programmes | 10.8 |
| ICT Developments | 3.7 |
| Transformation Development Efficiency Strategy | 3.7 |
| Schools Modernisation, Suitability and Condition | 1.7 |
| Leisure Centres | 0.6 |
| Communication and Marketing | 0.1 |
| | **77.0** |
| **People** | |
| Sports Investment Strategy | 0.8 |
| Public Health | 0.3 |
| Aiming High for Disabled Children | 0.1 |

| Project | Forecast Expenditure 2018-2019 £m |
|---|---|
| Capital Investment in Community Capacity Grant | 0.1 |
| | **1.3** |
| **Place** | |
| City Development | 31.8 |
| Black Country Growth Deal | 6.3 |
| Highway Improvements & Active Travel | 6.2 |
| Fleet Services | 4.7 |
| Highway Capital Maintenance | 3.4 |
| Corporate Asset Management | 2.9 |
| Land and Property Investment Fund | 2.7 |
| Operational Maintenance | 2.3 |
| Development of Cultural Estate | 1.1 |
| Blue Network | 0.6 |
| Parks Strategy & Open Spaces | 0.6 |
| Waste and Recycling | 0.5 |
| Queen Street Townscape Heritage | 0.5 |
| Community Hubs | 0.4 |
| Maintenance of Structures | 0.2 |
| Security Enhancement Works | 0.2 |
| Bereavement Services | 0.2 |
| Bilston War Memorial Restoration | 0.1 |
| | **64.7** |
| | |
| **Housing Private Sector** | **4.7** |
| | |
| **Housing Revenue Account** | |

| Project | Forecast Expenditure 2018-2019 £m |
|---|---|
| Decent Homes Stock Condition | 27.2 |
| New Build Programme | 16.9 |
| Other Stock Condition Improvements | 9.0 |
| Estate Remodelling | 8.6 |
| Service Enhancements and Miscellaneous | 1.5 |
| Adaptations for People with Disabilities | 1.0 |
| Other Improvements to the Public Realm | 0.2 |
| | **64.4** |
| **Grand Total** | **212.1** |



The following table shows how the Council is planning to fund the projects listed:

| Source of Funding | Forecast Expenditure 2017-2018 £m |
|---|---|
| Borrowing | 127.5 |
| Grants and Contributions | 35.1 |
| Reserve Funds | 22.1 |
| Capital Receipts | 26.9 |
| Capital Expenditure Financed from the Revenue Account | 0.5 |
| **Total** | **212.1** |

# 2. STATEMENT OF RESPONSIBILITIES

**The Council's Responsibilities**
The Council is required to:

(i) Decide 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 this Council, that officer is the Director of Finance.

(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) Approve the Statement of Accounts.

**The Director of Finance's Responsibilities**
The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

(i) Selected suitable accounting policies and then applied them consistently.

(ii) Made judgements and estimates that were reasonable and prudent.

(iii) Complied with the Code.

The Director of Finance has also:

(i) Kept proper accounting records which were up to date.

(ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

# 2. STATEMENT OF RESPONSIBILITIES

**Certification of the Director of Finance**

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Council as at 31 March 2018 and its income and expenditure for the year ended on the same date.

Claire Nye
Director of Finance

31 May 2018

# 3. INDEPENDENT AUDITORS REPORT TO COUNCILLORS OF THE CITY OF WOLVERHAMPTON COUNCIL

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY OF WOLVERHAMPTON COUNCIL**

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# 3. INDEPENDENT AUDITORS REPORT TO COUNCILLORS OF THE CITY OF WOLVERHAMPTON COUNCIL

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## Comprehensive Income and Expenditure Statement (Council only)

| 2016-2017 (Restated)* | | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 4.1 | (0.1) | 4.0 | Strategic Director People | | 4.9 | (0.4) | 4.5 |
| 123.4 | (52.7) | 70.7 | Adult Services | | 132.9 | (65.9) | 67.0 |
| 66.4 | (12.4) | 54.0 | Children & Young People | | 74.2 | (17.1) | 57.1 |
| 20.0 | (18.0) | 2.0 | Public Health & Wellbeing | | 23.5 | (21.9) | 1.6 |
| **213.9** | **(83.2)** | **130.7** | **People** | | **235.5** | **(105.3)** | **130.2** |
| 1.8 | 0.1 | 1.9 | Managing Director | | 1.7 | - | 1.7 |
| 10.2 | (5.2) | 5.0 | Governance | | 10.4 | (4.9) | 5.5 |
| 151.1 | (138.8) | 12.3 | Corporate Services | | 128.3 | (115.4) | 12.9 |
| 184.9 | (146.2) | 38.7 | Director of Education | | 145.0 | (141.7) | 3.3 |
| **348.0** | **(290.1)** | **57.9** | **Corporate Services** | | **285.4** | **(262.0)** | **23.4** |
| 6.8 | (29.8) | (23.0) | Corporate Accounts | | 6.6 | (9.6) | (3.0) |
| **6.8** | **(29.8)** | **(23.0)** | **Corporate Accounts** | | **6.6** | **(9.6)** | **(3.0)** |
| 1.4 | (5.5) | (4.1) | Corporate Resources | | 1.5 | (4.4) | (2.9) |
| **1.4** | **(5.5)** | **(4.1)** | **Corporate Resources** | | **1.5** | **(4.4)** | **(2.9)** |
| 0.5 | 0.1 | 0.6 | Strategic Director Place | | 1.0 | - | 1.0 |
| 28.1 | (6.4) | 21.7 | City Economy | | 27.8 | (11.3) | 16.5 |
| 5.6 | (0.9) | 4.7 | City Housing | | 4.9 | (1.2) | 3.7 |
| 29.6 | (27.1) | 2.5 | Corporate Landlord | | 23.3 | (11.0) | 12.3 |
| 65.0 | (18.1) | 46.9 | City Environment | | 58.5 | (17.3) | 41.2 |
| - | - | - | Land Property Investment Fund | | 0.1 | (0.1) | - |
| - | - | - | Public Service Reform | | 0.1 | - | 0.1 |
| **123.8** | **(48. 7)** | **75.1** | **Place** | | **115.7** | **(40.9)** | **74.8** |
| **73.0** | **(188.3)** | **(115.3)** | **Housing Revenue Account** | | **136.6** | **(99.0)** | **37.6** |
| **771.9** | **(649.3)** | **122.6** | **Net Cost of Services** | | **781.3** | **(521.2)** | **260.1** |
| | | | | | | | |
| 61.0 | (16.2) | 44.8 | Other operating expenditure | 5 | 39.3 | (15.8) | 23.5 |

## Comprehensive Income and Expenditure Statement (Council only) (Continued)

| 2016-2017 (Restated)* | | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 56.5 | (3.6) | 52.9 | Financing and investment income and expenditure | 6 | 60.9 | (4.5) | 56.4 |
| - | (247.0) | (247.0) | Taxation and non-specific grant income and expenditure | 7 | - | (257.4) | (257.4) |
| **889.4** | **(916.1)** | **(26.7)** | **Deficit on Provision of Services** | | **881.5** | **(798.9)** | **82.6** |
| | | | | | | | |
| | | 10.0 | Gain/(loss) on Revaluation of Non-Current Assets | | | | (27.9) |
| | | 122.1 | Re-measurement of the net defined benefit liability | | | | (30.3) |
| | | (4.4) | Surplus or deficit on revaluation of available for sale financial assets | | | | 0.5 |
| | | **127.7** | **Other Comprehensive Income and Expenditure** | | | | **(57.7)** |
| | | **101.0** | **Total Comprehensive Income and Expenditure** | | | | **24.9** |

## Comprehensive Income and Expenditure Statement (Group)

| 2016-2017 (Restated)* | | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 4.1 | (0.1) | 4.0 | Strategic Director People | | 4.9 | (0.4) | 4.5 |
| 123.4 | (52.7) | 70.7 | Adult Services | | 132.9 | (65.9) | 67.0 |
| 66.4 | (12.4) | 54.0 | Children & Young People | | 74.2 | (17.1) | 57.1 |
| 20.0 | (18.0) | 2.0 | Public Health & Wellbeing | | 23.5 | (21.9) | 1.6 |
| **213.9** | **(83.2)** | **130.7** | **People** | | **235.5** | **(105.3)** | **130.2** |
| 1.8 | 0.1 | 1.9 | Managing Director | | 1.7 | - | 1.7 |
| 10.2 | (5.2) | 5.0 | Governance | | 10.4 | (4.9) | 5.5 |
| 151.1 | (138.8) | 12.3 | Corporate Services | | 128.3 | (115.4) | 12.9 |
| 184.9 | (146.2) | 38.7 | Director of Education | | 145.0 | (141.7) | 3.3 |
| **348.0** | **(290.1)** | **57.9** | **Corporate Services** | | **285.4** | **(262.0)** | **23.4** |
| 6.8 | (29.8) | (23.0) | Corporate Accounts | | 6.6 | (9.6) | (3.0) |
| **6.8** | **(29.8)** | **(23.0)** | **Corporate Accounts** | | **6.6** | **(9.6)** | **(3.0)** |
| 1.4 | (5.5) | (4.1) | Corporate Resources | | 1.5 | (4.4) | (2.9) |
| **1.4** | **(5.5)** | **(4.1)** | **Corporate Resources** | | **1.5** | **(4.4)** | **(2.9)** |
| 0.5 | 0.1 | 0.6 | Strategic Director Place | | 1.0 | - | 1.0 |
| 28.1 | (6.4) | 21.7 | City Economy | | 27.8 | (11.3) | 16.5 |
| 5.7 | (0.9) | 4.8 | City Housing | | 8.4 | (1.2) | 7.2 |
| 24.5 | (23.4) | 1.1 | Corporate Landlord | | 23.3 | (11.0) | 12.3 |
| 65.0 | (18.1) | 46.9 | City Environment | | 58.5 | (17.3) | 41.2 |
| - | - | - | Land Property Investment Fund | | 0.1 | (0.1) | - |
| - | - | - | Public Service Reform | | 0.1 | - | 0.1 |
| **123.8** | **(48. 7)** | **75.1** | **Place** | | **119.2** | **(40.9)** | **78.3** |
| **73.0** | **(188.3)** | **(115.3)** | **Housing Revenue Account** | | **136.6** | **(99.0)** | **37.6** |
| **766.9** | **(645.6)** | **121.3** | **Net Cost of Services** | | **784.8** | **(521.2)** | **263.6** |
| | | | | | | | |
| 61.0 | (16.2) | 44.8 | Other operating expenditure | 5 | 39.3 | (15.8) | 23.5 |

**Comprehensive Income and Expenditure Statement (Group) (continued)**

| 2016-2017 (Restated)* | | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 57.5 | (3.6) | 53.9 | Financing and investment income and expenditure | 6 | 61.8 | (4.5) | 57.3 |
| - | (247.1) | (247.1) | Taxation and non-specific grant income and expenditure | 7 | - | (257.4) | (257.4) |
| **885.4** | **(912.5)** | **(27.1)** | **Deficit on Provision of Services** | | 885.9 | (798.9) | **87.0** |
| | | | | | | | |
| | | 10.0 | Gain/(loss) on Revaluation of Non-Current Assets | 10 | | | (27.9) |
| | | 126.9 | Re-measurement of the net defined benefit liability | 11 | | | (32.0) |
| | | (4.4) | Surplus or deficit on revaluation of available for sale financial assets | | | | 0.5 |
| | | **132.5** | **Other Comprehensive Income and Expenditure** | | | | **(59.4)** |
| | | **105.4** | **Total Comprehensive Income and Expenditure** | | | | **27.6** |

* In 2017-2018 a senior management internal restructure resulted in 'Older People' and 'Disability & Mental Health' being reclassified under 'Adult Services' and 'Children & Young People'. The CIES and accompanying Expenditure & Funding Analysis notes have been restated for comparability.

## Balance Sheets

| 31 March 2017 | | | | 31 March 2018 | |
|---|---|---|---|---|---|
| Council £m | Group £m | | Note | Council £m | Group £m |
| 1,366.0 | *1,366.0* | Property, Plant & Equipment | 10 | 1,330.8 | 1,330.8 |
| 11.5 | *11.5* | Heritage Assets | 10 | 11.6 | 11.6 |
| 40.0 | *40.0* | Investment Property | 10 | 36.2 | 36.2 |
| 6.4 | *6.4* | Intangible Assets | 10 | 5.6 | 5.6 |
| 0.3 | *0.3* | Assets Held for Sale | 10 | - | - |
| 24.2 | *24.2* | Long-term Investments | | 24.7 | 24.7 |
| 1.3 | *1.3* | Long-term Debtors | | 1.3 | 1.3 |
| **1,449.7** | ***1,449.7*** | **Long-term Assets** | | **1,410.2** | **1,410.2** |
| | | | | | |
| 7.9 | *7.9* | Short-term Investments | | 7.6 | 7.6 |
| 0.5 | *0.5* | Inventories | | 0.4 | 0.4 |
| 63.9 | *63.1* | Short-term Debtors | 8A | 66.5 | 68.7 |
| 1.1 | *15.0* | Cash and Cash Equivalents | | 2.2 | 14.3 |
| **73.4** | ***86.5*** | **Current Assets** | | **76.7** | **91.0** |
| | | | | | |
| (91.6) | *(91.6)* | Short-term Borrowing | | (2.7) | (2.7) |
| (84.5) | *(86.1)* | Short-term Creditors | 8B | (80.3) | (84.0) |
| (11.3) | *(11.3)* | Provisions | 9A | (14.7) | (14.7) |
| **(187.4)** | ***(189.0)*** | **Current Liabilities** | | **(97.7)** | **(101.4)** |
| | | | | | |
| (573.1) | *(573.2)* | Long-term Borrowing | | (680.4) | (680.4) |
| (662.3) | *(698.0)* | Net Pension Liability | 11 | (640.7) | (678.3) |
| (114.2) | *(114.2)* | Other Long-term Liabilities | | (107.1) | (107.1) |
| (5.0) | *(5.0)* | Grant Receipts in Advance – Capital | | (4.8) | (4.8) |
| **(1,354.6)** | ***(1,390.4)*** | **Long-term Liabilities** | | **(1,433.0)** | **(1,470.6)** |
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **(18.9)** | ***(43.2)*** | **Net Assets** | | **(43.8)** | ***(70.8)*** |
| | | | | | |
| **(86.1)** | ***(61.8)*** | **Usable Reserves** | **15A** | **(80.8)** | ***(53.8)*** |
| **105.0** | ***105.0*** | **Unusable Reserves** | **15A** | **124.6** | ***124.6*** |
| | | | | | |
| **18.9** | ***43.2*** | **Total Reserves** | | **43.8** | ***70.8*** |

The notes, Housing Revenue Account Statements and Collection Fund Statement on pages 136 to 147 form part of these financial statements.

**Movement in Reserves Statement 2017-2018**

(For a detailed breakdown of the figures in this Statement, see Note 15A)

| | General Fund Balance | General Fund Earmarked Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | Reserves of the Subsidiary | Total Usable Reserves | Unusable Reserves | TOTAL (Council) | TOTAL (Group) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance Brought Forward** | **(9.9)** | **(61.3)** | **(5.1)** | **(6.8)** | **(0.1)** | **(2.9)** | **24.3** | **(61.8)** | **104.9** | **18.9** | ***43.2*** |
| -As previously reported | **(0.1)** | **-** | **-** | **-** | **-** | **0.1** | **-** | **-** | **0.1** | **-** | |
| **-As restated** | **(10.0)** | **(61.3)** | **(5.1)** | **(6.8)** | **(0.1)** | **(2.8)** | **24.3** | **(61.8)** | **105.0** | **18.9** | ***43.2*** |
| | | | | | | | | | | | |
| Surplus/(Deficit) on Provision of Services | **39.0** | **-** | **43.6** | **-** | **-** | **-** | **4.4** | **87.0** | **-** | **82.6** | ***87.0*** |
| | | | | | | | | | | | |
| Other Comprehensive Income and Expenditure | **-** | **-** | **-** | **-** | **-** | **-** | **(1.7)** | **(1.7)** | **(57.7)** | **(57.7)** | ***(59.4)*** |
| | | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | **39.0** | **-** | **43.6** | **-** | **-** | **-** | **2.7** | **85.3** | **(57.7)** | **24.9** | ***27.6*** |
| | | | | | | | | | | | |
| Adjustments between Accounting Basis & Funding Basis under Regulations | **(33.9)** | **-** | **(45.1)** | **2.6** | **(0.3)** | **(0.6)** | **-** | **(77.3)** | **77.3** | **-** | **-** |
| | | | | | | | | | | | |
| **Net Decrease/(Increase) before Transfers & Other Movements** | **5.1** | **-** | **(1.5)** | **2.6** | **(0.3)** | **(0.6)** | **2.7** | **8.0** | **19.6** | **24.9** | ***27.6*** |
| | | | | | | | | | | | |
| Transfers to/from earmarked Reserves | (5.1) | 5.5 | (0.4) | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | |
| **(Increase)/decrease for the Year** | **-** | **5.5** | **(1.9)** | **2.6** | **(0.3)** | **(0.6)** | **2.7** | **8.0** | **19.6** | **24.9** | ***27.6*** |
| | | | | | | | | | | | |
| **Balance Carried Forward** | **(10.0)** | **(55.8)** | **(7.0)** | **(4.2)** | **(0.4)** | **(3.4)** | **27.0** | **(53.8)** | **124.6** | **43.8** | ***70.8*** |

**Movement in Reserves Statement 2016-2017**

(For a detailed breakdown of the figures in this Statement, see Note 15A)

| | General Fund Balance | General Fund Earmarked Reserves | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | Reserves of the Subsidiary | Total Usable Reserves | Unusable Reserves | TOTAL (Council) | TOTAL (Group) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance Brought Forward** | | | | | | | | | | | |
| -As previously reported | **(10.0)** | **(70.1)** | **(5.0)** | **(7.4)** | **(0.1)** | **(2.0)** | **19.9** | **(74.7)** | **13.9** | **(80.7)** | ***(60.8)*** |
| -Prior year adjustment (Refer to Note 1) | - | (2.9) | - | - | - | - | - | (2.9) | 0.6 | (2.3) | *(2.3)* |
| **-As restated** | **(10.0)** | **(73.0)** | **(5.0)** | **(7.4)** | **(0.1)** | **(2.0)** | **19.9** | **(77.6)** | **14.5** | **(83.0)** | ***(63.1)*** |
| | | | | | | | | | | | |
| Surplus/(Deficit) on Provision of Services | 81.7 | - | (108.4) | - | - | - | (0.4) | (27.1) | - | (26.7) | *(27.1)* |
| | | | | | | | | | | | |
| Other Comprehensive Income and Expenditure | - | - | 1.0 | - | - | - | 4.8 | 5.8 | 127.6 | 127.7 | *132.5* |
| | | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 81.7 | - | (107.4) | - | - | - | 4.4 | (21.3) | 127.6 | 101.9 | *106.3* |
| | | | | | | | | | | | |
| Adjustments between Accounting Basis & Funding Basis under Regulations | (69.8) | - | 107.2 | 0.6 | - | (0.9) | - | 37.1 | (37.5) | - | - |
| | | | | | | | | | | | |
| **Net Decrease/(Increase) before Transfers & Other Movements** | **11.9** | **-** | **(0.2)** | **0.6** | **-** | **(0.9)** | **4.4** | **15.8** | **90.4** | **101.9** | ***106.3*** |
| | | | | | | | | | | | |
| Transfers to/from earmarked Reserves | (11.8) | 11.7 | 0.1 | - | - | - | - | - | - | - | - |
| | | | | | | | | | | | |
| (Increase)/decrease for the Year | 0.1 | 11.7 | (0.1) | 0.6 | - | (0.9) | 4.4 | 15.9 | 90.4 | 101.9 | *106.3* |
| | | | | | | | | | | | |
| **Balance Carried Forward** | **(9.9)** | **(61.3)** | **(5.1)** | **(6.8)** | **(0.1)** | **(2.9)** | **24.3** | **(61.8)** | **104.9** | **18.9** | ***43.2*** |

## Cash Flow Statement

| 2016-2017 | | | | 2017-2018 | |
|---|---|---|---|---|---|
| Council £m | *Group £m* | | Note | Council £m | *Group £m* |
| (29.5) | *(29.9)* | Net deficit on the provision of services | | 82.6 | *87.0* |
| | | | | | |
| (36.6) | *(38.0)* | Adjustment for non-cash movements | 16A | (154.6) | *(156.3)* |
| 13.9 | *13.9* | Adjustment for items that are investing and financing activities | 16B | 15.8 | *15.8* |
| | | | | | |
| **(52.2)** | ***(54.0)*** | **Net cash flows from operating activities** | **16C** | **(56. 2)** | ***(53.5)*** |
| | | | | | |
| | | | | | |
| | | **Investing activities** | | | |
| 96.7 | *96.7* | Purchase of property, plant and equipment, investment property and intangible assets | | 80.9 | *80.9* |
| 493.2 | *493.2* | Purchase of short-term and long-term investments | | 496.1 | *496.1* |
| (13.9) | *(13.9)* | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | (15.8) | *(15.8)* |
| (528.2) | *(528.2)* | Receipts from sale of short-term and long-term investments | | (495.3) | *(495.3)* |
| **47.8** | ***47.8*** | **Net cash flows from investing activities** | | **65.9** | ***65.9*** |
| | | | | | |
| | | **Financing activities** | | | |
| (78.8) | *(80.0)* | Cash receipts of short- and long-term borrowing | | (105.0) | *(105.9)* |
| 3.1 | *3.1* | Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts | | 7.1 | *7.1* |
| 80.6 | *80.6* | Repayments of short-and long-term borrowing | | 87.1 | *87.1* |
| **4.9** | **3.7** | **Net cash flows from total financing activities** | | **(10.8)** | ***(11.7)*** |
| | | | | | |
| **0.5** | ***(2.5)*** | **Net (increase) or decrease in cash and cash equivalents** | | **(1.1)** | ***0.7*** |
| | | | | | |
| | | Cash and cash equivalents at the start of the year: | | | |
| 0.2 | *0.2* | - Cash held by the council | | 0.2 | *0.2* |
| 1.4 | *12.3* | - Bank current accounts | | 0.9 | *14.8* |
| **1.6** | ***12.5*** | | | **1.1** | ***15.0*** |
| | | | | | |
| | | Cash and cash equivalents at the end of the year: | | | |
| 0.2 | *0.2* | - Cash held by the council | | 0.6 | *0.6* |
| 0.9 | *14.8* | - Bank current accounts | | 1.6 | *13.7* |
| **1.1** | ***15.0*** | | | **2.2** | ***14.3*** |

## Note 1A - Expenditure and Funding Analysis

| 2016-2017 (Restated) | | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | | Note | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| £m | £m | £m | | | £m | £m | £m |
| 4.0 | - | 4.0 | Strategic Director People | | 4.2 | 0.3 | 4.5 |
| 61.2 | 9.5 | 70.7 | Adult Services | | 62.3 | 4.7 | 67.0 |
| 47.9 | 6.1 | 54.0 | Children & Young People | | 49.7 | 7.4 | 57.1 |
| - | 2.0 | 2.0 | Public Health & Wellbeing | | - | 1.6 | 1.6 |
| **113.1** | **17.6** | **130.7** | **People** | | **116.2** | **14.0** | **130.2** |
| 1.2 | 0.7 | 1.9 | Managing Director | | 1.4 | 0.3 | 1.7 |
| 23.2 | (10.9) | 12.3 | Corporate Services | | 23.8 | (10.9) | 12.9 |
| 6.1 | (1.1) | 5.0 | Governance | | 8.0 | (2.6) | 5.4 |
| 5.9 | 32.7 | 38.6 | Education | | 3.8 | (0.4) | 3.4 |
| **36.4** | **21.4** | **57.8** | **Corporate Services** | | **37.0** | **(13.6)** | **23.4** |
| (217.9) | 213.9 | (4.0) | Corporate Resources | | (222.9) | 220.0 | (2.9) |
| 27.3 | (50.3) | (23.0) | Corporate Accounts | | 28.7 | (31.7) | (3.0) |
| **(190.6)** | **163.6** | **(27.0)** | **Corporate Accounts** | | **(194.2)** | **188.3** | **(5.9)** |
| 0.4 | 0.2 | 0.6 | Strategic Director Place | | 0.6 | 0.4 | 1.0 |
| 7.1 | 14.6 | 21.7 | City Economy | | 7.8 | 8.7 | 16.5 |
| 1.8 | 2.9 | 4.7 | City Housing | | 1.5 | 2.3 | 3.8 |
| 8.0 | (5.5) | 2.5 | Corporate Landlord | | 7.9 | 4.4 | 12.3 |
| 23.8 | 23.1 | 46.9 | City Environment | | 23.2 | 18.0 | 41.2 |
| **41.1** | **35.3** | **76.4** | **Place** | | **41.0** | **33.8** | **74.8** |
| **-** | **(115.3)** | **(115.3)** | **Housing Revenue Account** | | **(2.0)** | **39.6** | **37.6** |
| **-** | **122.6** | **122.6** | **Net Cost of Services** | | **(2.0)** | **262.1** | **260.1** |
| **-** | **(149.3)** | **(149.3)** | **Other Income and Expenditure** | | **-** | **(177.5)** | **(177.5)** |
| **-** | **(26.7)** | **(26.7)** | **Surplus or Deficit** | | **(2.0)** | **84.6** | **82.6** |

The Expenditure and Funding Analysis notes have been restated in 2016-17, so that the Net Expenditure in the CIES for the Housing Revenue Account can be compared to the (Surplus)/deficit *after* transfers to/from reserves and provision for redemption of debt (previously compared to (Surplus)/deficit *before* transers to/from reserves and provision for redemption of debt). This is also now consistent with how other areas are shown in the Expenditure and Funding Analysis.

**Note 1B – Note to the Expenditure and Funding Analysis 2017-2018**

| | | | Adjustments between Funding and Accounting | |
|---|---|---|---|---|
| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts** | **Adjustment for Capital Purposes** | **Net change for the Pensions Adjustment** | **Other Differences (Note 1C)** | **Total Adjustment Between Funding and Accounting Basis** |
| | **£m** | **£m** | **£m** | **£m** |
| Strategic Director People | - | - | 0.3 | **0.3** |
| Children & Young People | 1.5 | - | 5.9 | **7.4** |
| Adult Services | 1.0 | - | 3.7 | **4.7** |
| Public Health & Wellbeing | - | - | 1.6 | **1.6** |
| **People** | **2.5** | **-** | **11.5** | **14.0** |
| Managing Director | - | - | 0.3 | **0.3** |
| Corporate Services | 2.4 | - | (13.3) | **(10.9)** |
| Governance | 0.1 | - | (2.7) | **(2.6)** |
| Education | 4.4 | 1.1 | (5.9) | **(0.4)** |
| Corporate Services | 6.9 | 1.1 | (21.6) | **(13.6)** |
| Corporate Accounts | 3.9 | - | (35.7) | **(31.8)** |
| Corporate Resources | - | - | 220.0 | **220.0** |
| **Corporate Accounts** | **3.9** | **-** | **184.3** | **188.2** |
| Strategic Director Place | - | - | 0.4 | **0.4** |
| City Economy | 3.5 | - | 5.1 | **8.7** |
| City Assets | 2.5 | - | (0.3) | **2.3** |
| Corporate Landlord | 11.7 | 0.1 | (7.3) | **4.4** |

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts | Adjustment for Capital Purposes | Net change for the Pensions Adjustment | Adjustments between Funding and Accounting<br>Other Differences (Note 1C) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| City Environment | 16.0 | 0.1 | 2.0 | **18.0** |
| **Place** | **33.7** | **0.2** | **(0.1)** | **33.8** |
| **Housing Revenue Account** | **71.0** | **-** | **(31.4)** | **39.6** |
| **Net Cost of Services** | **117.9** | **1.3** | **142.9** | **262.1** |
| **Other income and expenditure** | **-** | **-** | **(177.5)** | **(177.5)** |
| **Total** | **117.9** | **1.3** | **(34.6)** | **84.6** |

## Note 1B – Note to the Expenditure and Funding Analysis 2016-2017



| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts | Adjustment for Capital Purposes | Net change for the Pensions Adjustment | Adjustments between Funding and Accounting<br>Other Differences (Note 1C) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Adult Services | 1.3 | 3.0 | 5.2 | **9.5** |
| Children & Young People | 0.8 | 0.2 | 5.1 | **6.1** |
| Public Health & Wellbeing | - | - | 2.0 | **2.0** |
| **People** | **2.1** | **3.2** | **12.3** | **17.6** |
| Managing Director | - | - | 0.7 | **0.7** |
| Directorate | - | - | - | **-** |
| Corporate Services | 0.1 | (18.0) | 7.0 | **(10.9)** |
| Governance | 0.4 | (3.6) | 2.1 | **(1.1)** |
| Corporate Accounts | (1.1) | - | (49.2) | **(50.3)** |
| Corporate Resources | - | - | 213.9 | **213.9** |
| **Corporate** | **(0.6)** | **(21.6)** | **174.5** | **152.3** |

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts | Adjustment for Capital Purposes | Net change for the Pensions Adjustment | Other Differences (Note 1C) | Total Adjustment Between Funding and Accounting Basis |
|---|---|---|---|---|
| | | | | Adjustments between Funding and Accounting |
| | £m | £m | £m | £m |
| Strategic Director Place | - | - | 0.2 | **0.2** |
| City Economy | 5.0 | 3.2 | 6.4 | **14.6** |
| Housing | 1.8 | (16.5) | 9.2 | **(5.5)** |
| City Assets | - | - | 2.9 | **2.9** |
| City Environment | 11.1 | (6.1) | 18.1 | **23.1** |
| **Place** | **17.9** | **(19.4)** | **36.8** | **35.3** |
| **Education** | **16.1** | **5.9** | **10.7** | **32.7** |
| **Housing Revenue Account** | **(85.2)** | **-** | **(30.1)** | **(115.3)** |
| **Net Cost of Services** | **(49.7)** | **(31.9)** | **204.2** | **122.6** |
| **Other income and expenditure** | **31.3** | **-** | **(180.6)** | **(149.3)** |
| **Total** | **(18.4)** | **(31.9)** | **23.6** | **(26.7)** |



## Note 1C – Other Differences Analysis 2017-2018

| Other Differences | Reserve | Grants | External trading operations | Financing and investment income and expenditure | Other operating expenditure | Taxation and non-specific grant income and expenditure | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Strategic Director People | - | - | - | - | - | - | 0.3 | 0.3 |
| Adult Services | (1.3) | 0.1 | - | - | - | - | 4.9 | **3.7** |
| Children & Young People | 0.6 | - | - | - | - | - | 5.3 | **5.9** |
| Public Health & Wellbeing | 1.3 | 0.1 | - | - | - | - | 0.2 | **1.6** |
| **People** | **0.6** | **0.2** | **-** | **-** | **-** | **-** | **10.7** | **11.5** |
| Managing Director | 0.1 | - | - | - | - | - | 0.2 | **0.3** |
| Corporate Services | 0.3 | (0.3) | (0.1) | - | - | - | (13.2) | **(13.3)** |

| Other Differences | Reserve £m | Grants £m | External trading operations £m | Financing and investment income and expenditure £m | Other operating expenditure £m | Taxation and non-specific grant income and expenditure £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Governance | (0.3) | - | 0.6 | - | - | - | (3.0) | **(2.7)** |
| Education | 2.1 | 0.1 | - | - | - | - | (8.0) | **(5.8)** |
| **Corporate Services** | **2.2** | **(0.2)** | **0.5** | **-** | **-** | **-** | **(24.0)** | **(21.5)** |
| Corporate Accounts | (1.0) | (0.1) | - | (14.2) | (11.0) | - | (9.3) | **(35.6)** |
| Corporate Resources | 1.1 | 14.6 | - | - | - | 204.4 | - | **220.1** |
| **Corporate Accounts** | **0.1** | **14.5** | **-** | **(14.2)** | **(11.0)** | **204.4** | **(9.3)** | **184.5** |
| Strategic Director Place | 0.4 | - | - | - | - | - | - | **0.4** |
| City Economy | 0.6 | (0.1) | - | - | - | - | 4.6 | **5.1** |
| City Housing | (0.5) | (0.1) | - | - | - | - | 0.3 | **(0.3)** |
| Corporate Landlord | 0.6 | - | - | - | - | - | (7.9) | **(7.3)** |
| City Environment | 1.3 | 0.2 | - | - | - | - | 0.5 | **2.0** |
| **Place** | **2.4** | **-** | **-** | **-** | **-** | **-** | **(2.5)** | **(0.1)** |
| **Housing Revenue Account** | **(21.2)** | **-** | **-** | **(10.2)** | **-** | **-** | **-** | **(31.4)** |
| **Net Cost of Services** | **(15.9)** | **14.5** | **0.5** | **(24.4)** | **(11.0)** | **204.4** | **(25.1)** | **143.0** |



## Note 1C – Other Differences Analysis 2016-2017

| Other Differences | Reserve £m | Grants £m | External trading operations £m | Financing and investment income and expenditure £m | Other operating expenditure £m | Taxation and non-specific grant income and expenditure £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Adult Services | 0.5 | - | - | - | - | - | 4.7 | 5.2 |
| Children & Young People | (0.2) | 0.3 | - | - | - | - | 5.0 | 5.1 |
| Public Health & Wellbeing | 1.7 | - | - | - | - | - | 0.3 | 2.0 |

| Other Differences | Reserve £m | Grants £m | External trading operations £m | Financing and investment income and expenditure £m | Other operating expenditure £m | Taxation and non-specific grant income and expenditure £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **People** | **2.0** | **0.3** | **-** | **-** | **-** | **-** | **10.0** | **12.3** |
| Managing Director | 0.5 | - | - | - | - | - | 0.2 | 0.7 |
| Directorate | - | - | - | - | - | - | - | - |
| Transformation Team | - | - | - | - | - | - | - | - |
| Corporate Services | 1.5 | (0.1) | - | - | - | - | 5.6 | 7.0 |
| Governance | 0.1 | - | 0.7 | - | - | - | 1.3 | 2.1 |
| Corporate Accounts | (0.7) | - | - | (14.8) | (11.3) | 1.5 | (23.9) | (49.2) |
| Corporate Resources | 1.6 | 0.1 | - | - | - | 212.2 | - | 213.9 |
| **Corporate** | **3.0** | **-** | **0.7** | **(14.8)** | **(11.3)** | **213.7** | **(16.8)** | **174.5** |
| Strategic Director Place | 0.1 | - | - | - | - | - | 0.1 | 0.2 |
| City Economy | 0.9 | (0.2) | - | 0.5 | - | - | 5.2 | 6.4 |
| Housing | 0.3 | - | - | - | - | - | 8.9 | 9.2 |
| City Assets | 0.6 | (0.2) | - | - | - | - | 2.5 | 2.9 |
| City Environment | (0.9) | - | - | 0.4 | - | - | 18.6 | 18.1 |
| **Place** | **1.0** | **(0.4)** | **-** | **0.9** | **-** | **-** | **35.3** | **36.8** |
| **Education** | **5.1** | **0.5** | **-** | **-** | **-** | **-** | **5.1** | **10.7** |
| **Housing Revenue Account** | **(19.3)** | **-** | **-** | **(10.8)** | **-** | **-** | **-** | **(30.1)** |
| **Net Cost of Services** | **(8.2)** | **0.4** | **0.7** | **(24.7)** | **(11.3)** | **213.7** | **33.6** | **204.2** |

## Note 1D Expenditure and Income Analysed by Nature

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| | **Expenditure** | |
| 278.5 | Employee benefits expenses | 231.5 |
| 354.2 | Other service expenses | 418.2 |
| 58.9 | Depreciation, amortisation and impairment | 44.6 |
| 47.6 | Loss on disposal of non-current assets | 26.1 |
| 54.2 | Interest payments | 53.7 |
| 11.3 | Levies | 11.0 |
| 82.2 | Support service recharges | 86.7 |
| **886.9** | | **871.8** |
| | | |
| | **Income** | |
| (566.2) | Fees and charges and other service income | (422.4) |
| (119.5) | Income from Council tax and Business Rates | (167.5) |
| (127.5) | Government grants and contributions | (89.9) |
| (16.2) | Gain on disposal of non-current assets | (15.8) |
| (82.2) | Support service recharges | (86.7) |
| (2.0) | Interest and investment income | (2.5) |
| **(913.6)** | | **(784.8)** |
| **(26.7)** | **Deficit on provision of services** | **87.0** |



## Note 2 Income and Expenditure

### 2A Acquired and Discontinued Operations

The Council has not acquired or discontinued any operations during the year under review.

### 2B Trading Operations

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public, whilst others are support services to the Council's services to the public (e.g. Schools and Welfare Catering). The expenditure of these operations is allocated or recharged to headings within the Net Cost of Services. Expenditure and income attributable to the external element of trading operations are disclosed on the face of the Comprehensive Income and Expenditure Statement.

| 2016-2017 | | | 2017-2018 | |
|---|---|---|---|---|
| Turnover £m | Deficit/ (Surplus) £m | Trading Operation | Turnover £m | Deficit/ (Surplus) £m |
| (1.7) | 0.5 | Markets | (1.6) | (0.2) |
| (4.6) | 0.4 | Cleaning of Buildings | (4.9) | 0.7 |
| (8.6) | (0.8) | Schools and Welfare Catering | (7.1) | 0.3 |
| (0.3) | 0.1 | Civic Centre and Other Catering | (0.3) | 0.1 |
| **(15.2)** | **0.2** | **Total** | **(13.9)** | **0.9** |



### 2C Pooled Budgets

The Council takes part in two pooled budget schemes with Wolverhampton Clinical Commissioning Group (CCG). The first scheme relates to the integrated service for Child Placements with External Agencies for children with social care, education and health needs. The scheme is administered by the Council and is summarised in the following table.

| 2016-2017 | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|
| Council Contribution £m | CCG Contribution £m | Total Expenditure £m | Scheme | Council Contribution £m | CCG Contribution £m | Total Expenditure £m |
| 2.5 | 1.6 | 4.1 | Child Placements with External Agencies | 2.5 | 1.7 | 4.2 |

The second scheme relates to a pooled budget arrangement with Wolverhampton Clinical Commissioning Group (CCG) entered on 1st April 2015. This is a section 75 (NHS Act 2006) partnership agreement relating to the commissioning of health and social care services under the Better Care Fund (BCF). The BCF has been established by the Government and it is a requirement of the Fund that that the CCG and the Council establish a pooled fund

for this purpose. The Host Partner is the City of Wolverhampton Council. The partners' contribution to the Fund is outlined below. The share of any over/ (under) spend is allocated according to the Section 75 agreement.

| 2016-2017 £m | Better Care Fund | 2017-2018 £m |
|---|---|---|
| | **Expenditure** | |
| 46.5 | Adult Community Services | 54.5 |
| 2.9 | Dementia | 2.9 |
| 10.1 | Mental Health & CAMHS | 9.8 |
| - | Intermediate Care/ Reablement | - |
| | | |
| **59.5** | **Total Expenditure** | **67.2** |
| | | |
| | **Gross Funding** | |
| 35.1 | Wolverhampton Clinical Commissioning Group | 37.5 |
| 21.7 | City of Wolverhampton Council | 29.3 |
| **56.8** | **Total Funding** | **66.8** |
| **2016-2017 £m** | **Better Care Fund** | **2017-2018 £m** |
| **2.7** | **Net Over Spend** | **0.4** |
| | | |
| | **Allocation of Over/(Under) Spend** | |
| 1.7 | Wolverhampton Clinical Commissioning Group | 0.5 |
| 1.0 | City of Wolverhampton Council | (0.1) |
| **2.7** | **Total Allocation** | **0.4** |



### 2D Councillors' Allowances

The Council paid £913,000 in Councillors' allowances during 2017-2018 (2016-2017: £908,000).

### 2E Senior Officers' Remuneration

The following table sets out remuneration disclosures for Senior Officers (with reference to notes where applicable).

| Post Title | | Salary, Fees and Allowances £ | Contractor Costs £ | Expenses Allowances £ | Exit Package £ | Employers' Pension Contribution £ | TOTAL REMUNERATION £ |
|---|---|---|---|---|---|---|---|
| **Managing Director (Head of Paid Service)** [1] | **2017-2018** | **147,915** | **-** | **-** | **-** | **42,038** | **189,953** |
| | 2016-2017 | 143,925 | - | - | - | 33,391 | 177,316 |
| **Strategic Director of Place/Deputy Managing Director** [2] | **2017-2018** | **136,183** | **-** | **-** | **-** | **29,027** | **165,210** |
| | 2016-2017 | 133,136 | - | - | - | 30,888 | 164,024 |
| **Strategic Director of People** [3] | **2017-2018** | **140,871** | **-** | **-** | **-** | **20,929** | **161,801** |
| Strategic Director of People - Interim | 2016-2017 | 40,000 | 186,672 | - | - | - | 226,672 |
| **Strategic Director of Pensions** [4 & 5] | **2017-2018** | **67,233** | **-** | **-** | **8,399** | **18,489** | **94,122** |
| | 2016-2017 | 133,136 | - | - | - | 30,888 | 164,024 |
| **Director of Pensions/Assistant Director, Actuarial and Pensions** [4 & 6] | **2017-2018** | **120,791** | **-** | **-** | **-** | **33,218** | **154,009** |
| | 2016-2017 | 114,838 | - | - | - | 26,642 | 141,480 |
| **Strategic Director of Housing** [7] | **2017-2018** | **52,140** | **-** | **350** | **7,733** | **-** | **60,223** |
| | 2016-2017 | 68,831 | - | - | - | 10,256 | 79,087 |
| **Director of Finance (Section 151 Officer)** [8] | **2017-2018** | **97,982** | **-** | **-** | **-** | **27,847** | **125,829** |
| | 2016-2017 | 104,284 | - | - | - | 24,217 | 128,501 |
| **Director of Governance (Monitoring Officer)** [9] | **2017-2018** | **108,845** | **-** | **-** | **-** | **-** | **108,845** |
| | 2016-2017 | 107,767 | - | - | - | 10,417 | 118,184 |
| **Director of Education** [10] | **2017-2018** | **51,497** | **-** | **-** | **-** | **14,635** | **66,132** |
| Director of Education - Interim | 2016-2017 | - | 154,560 | - | - | - | 154,560 |
| **Director of Children's Services** [11] | **2017-2018** | **59,506** | **-** | **-** | **-** | **16,912** | **76,417** |
| | 2016-2017 | - | - | - | - | - | - |

| Post Title | | Salary, Fees and Allowances £ | Contractor Costs £ | Expenses Allowances £ | Exit Package £ | Employers' Pension Contribution £ | TOTAL REMUNERATION £ |
|---|---|---|---|---|---|---|---|
| **Director of Adult Services [12]** | **2017-2018** | **59,506** | **-** | **-** | **-** | **16,912** | **76,417** |
| | 2016-2017 | - | - | - | - | - | - |
| **Director of Public Health [13]** | **2017-2018** | **42,504** | **-** | **-** | **-** | **12,080** | **54,584** |
| | 2016-2017 | - | - | - | - | - | - |
| **Service Director - Children and Young People [14]** | **2017-2018** | **37,593** | **-** | **-** | **-** | **10,684** | **48,277** |
| | 2016-2017 | 89,330 | - | - | - | 20,725 | 110,055 |
| **Service Director - Adult Social Care [15]** | **2017-2018** | **40,754** | **-** | **-** | **-** | **11,582** | **52,337** |
| | 2016-2017 | 42,148 | - | - | - | 9,778 | 51,926 |
| **Service Director - Public Health and Well-Being [16]** | **2017-2018** | **28,848** | **77,285** | **282** | **-** | **4,148** | **110,563** |
| | 2016-2017 | 95,314 | - | 963 | - | 13,360 | 109,637 |
| **Service Director - City Economy** | **2017-2018** | **98,328** | **-** | **-** | **-** | **27,945** | **126,273** |
| | 2016-2017 | 92,230 | - | - | - | 21,397 | 113,627 |
| **Service Director - City Environment** | **2017-2018** | **88,742** | **-** | **-** | **-** | **25,221** | **113,963** |
| | 2016-2017 | 84,366 | - | - | - | 19,573 | 103,939 |
| **Service Director - Housing [17]** | **2017-2018** | **20,881** | **-** | **-** | **-** | **5,935** | **26,816** |
| | 2016-2017 | - | - | - | - | - | - |
| **Service Director - Health [18]** | **2017-2018** | **12,120** | **-** | **-** | **-** | **3,445** | **15,565** |
| | 2016-2017 | - | - | - | - | - | - |
| **Service Director - Commercial Services [19]** | **2017-2018** | **81,940** | **20,700** | **-** | **-** | **-** | **102,640** |
| | 2016-2017 | - | 134,142 | - | - | - | 134,142 |
| **Service Director - Public Service Reform [20]** | **2017-2018** | **51,878** | **-** | **-** | **-** | **14,744** | **66,622** |
| | 2016-2017 | - | - | - | - | - | - |

| Post Title | | Salary, Fees and Allowances £ | Contractor Costs £ | Expenses Allowances £ | Exit Package £ | Employers' Pension Contribution £ | TOTAL REMUNERATION £ |
|---|---|---|---|---|---|---|---|
| **Assistant Director - Investments and Finance** [4 & 21] | **2017-2018** | **46,326** | **-** | **-** | **-** | **12,740** | **59,065** |
| | 2016-2017 | - | - | - | - | - | - |
| **Chief Investment Officer** [4 & 22] | **2017-2018** | **49,164** | **-** | **-** | **-** | **13,520** | **62,684** |
| | 2016-2017 | 52,733 | - | - | - | 12,234 | 64,967 |
| **Assistant Director - Investments** [4 & 23] | **2017-2018** | **-** | **-** | **-** | **-** | **-** | **-** |
| | 2016-2017 | 58,575 | - | - | 53,034 | 13,590 | 125,199 |
| **Chief Accountant** [24] | **2017-2018** | **31,649** | **-** | **-** | **-** | **8,995** | **40,643** |
| | 2016-2017 | 68,057 | - | - | - | 15,789 | 83,846 |
| **Head of Corporate Landlord** | **2017-2018** | **75,957** | **-** | **-** | **-** | **21,587** | **97,544** |
| | 2016-2017 | 74,026 | - | - | - | 17,174 | 91,200 |
| **Head of Corporate Communications** [25] | **2017-2018** | **73,549** | **-** | **-** | **-** | **20,903** | **94,452** |
| | 2016-2017 | 62,606 | - | - | - | 14,525 | 77,131 |
| **Head of Service - Improvement** [26] | **2017-2018** | **61,671** | **-** | **-** | **-** | **17,527** | **79,198** |
| | 2016-2017 | 40,093 | - | - | - | 9,302 | 49,395 |
| **Head of Service - Business Management** [27] | **2017-2018** | **54,234** | **-** | **-** | **-** | **15,143** | **69,377** |
| | 2016-2017 | - | - | - | - | - | - |
| **Head of Service - Strategic Commissioning** [28] | **2017-2018** | **54,542** | **36,025** | **-** | **-** | **14,919** | **105,487** |
| Head of Service - Strategic Commissioning, People - Interim | 2016-2017 | - | 76,799 | - | - | - | 76,799 |

The following table shows the number of other employees, excluding Senior Officers, whose remuneration for the year (excluding employer's pension contributions) exceeded £50,000.

| | 2017-2018 | | | | |
|---|---|---|---|---|---|
| | Number of Employees | | | | |
| Remuneration Band | Schools | Pension Fund | Rest of Council | Total Number of Employees in Band | Employees Receiving Termination Packages (included in total) |
| £50000 - £54999 | 37 | 4 | 61 | 102 | 7 |
| £55000 - £59999 | 22 | 3 | 26 | 51 | 8 |
| £60000 - £64999 | 14 | 2 | 28 | 44 | 3 |
| £65000 - £69999 | 20 | - | 2 | 22 | 1 |
| £70000 - £74999 | 7 | - | 2 | 9 | 2 |
| £75000 - £79999 | 4 | - | 3 | 7 | 3 |
| £80000 - £84999 | 3 | - | 3 | 6 | 3 |
| £85000 - £89999 | 2 | - | - | 2 | - |
| £90000 - £94999 | 1 | - | 2 | 3 | 1 |
| £95000 - £99999 | 1 | - | 3 | 4 | 3 |
| £100000 - £104999 | - | - | - | - | - |
| £105000 - £109999 | - | - | - | - | - |
| £110000 - £114999 | - | - | - | - | - |
| £115000 - £119999 | - | - | - | - | - |
| £120000 - £124999 | - | - | 1 | 1 | 1 |
| **Total** | **111** | **9** | **131** | **251** | **32** |

| | 2016-2017 | | | | |
|---|---|---|---|---|---|
| | Number of Employees | | | | |
| Remuneration Band | Schools | Pension Fund | Rest of Council | Total Number of Employees in Band | Employees Receiving Termination Packages (included in total) |
| £50000 - £54999 | 49 | 2 | 54 | 105 | 4 |
| £55000 - £59999 | 20 | 4 | 17 | 41 | 2 |
| £60000 - £64999 | 27 | 2 | 24 | 53 | 4 |
| £65000 - £69999 | 18 | - | 2 | 20 | 1 |
| £70000 - £74999 | 7 | - | 4 | 11 | 3 |
| £75000 - £79999 | 4 | - | 2 | 6 | - |
| £80000 - £84999 | 4 | - | - | 4 | - |
| £85000 - £89999 | 3 | - | 1 | 4 | - |
| £90000 - £94999 | 1 | - | - | 1 | - |
| £95000 - £99999 | 1 | - | - | 1 | - |
| £100000 - £104999 | - | - | - | - | - |
| £105000 - £109999 | - | - | - | - | - |
| £110000 - £114999 | - | - | - | - | - |
| £115000 - £119999 | - | - | - | - | - |
| £120000 - £124999 | - | - | - | - | - |
| £125000 - £129999 | - | - | - | - | - |
| £130000 - £134999 | - | - | - | - | - |
| £135000 - £139999 | 1 | - | - | 1 | 1 |
| **Total** | **135** | **8** | **104** | **247** | **15** |

Note 1: Between April 2017 and March 2018 pay costs of £25,400, included in the table against the Managing Director, were funded by West Midlands Pension Fund, and not from the City of Wolverhampton Council General Fund. This is for the Managing Director's work as Chief Executive of the West Midlands Pension Fund.

Note 2: The Strategic Director of Place assumed the role of Deputy Managing Director from 1 April 2017 with no changes to remuneration. The post holder uses the title of Strategic Director of Place or Deputy Managing Director as necessary depending on the circumstances and audience.

Note 3: The Strategic Director of People post was held by two individuals during 2017-2018. The current post holder, with an annualised salary of £126,245 for 2017-2018, was appointed from the Director of Finance post with effect from 1 September 2017. The previous post holder held the post on a fixed term contract, with an annualised salary of £136,183 for 2017-2018, until 31 August 2017 and the amount shown includes a Market Forces Supplement of £10,485.

Note 4: The pay costs of these officers were fully funded by West Midlands Pension Fund, and not by the City of Wolverhampton Council.

Note 5: The Strategic Director of Pensions post became vacant on 30 September 2017. £8,399 relates to pay in lieu of leave and had an annualised salary of £134,467 for 2017-2018. The Strategic Director of Pensions post was redesignated to Director of Pensions with effect from 1 October 2017.

Note 6: The Assistant Director Actuarial and Pensions post holder formally became the Director of Pensions with effect from 1 October 2017; the post had an annualised salary of £112,211 for 2017-2018. The Assistant Director Actuarial and Pensions acted-up to the Director of Pensions post between 1 July 2016 and 30 September 2017.

Note 7: The Strategic Director of Housing post became vacant on 31 January 2018 and was deleted. £7,733 relates to pay in lieu of leave. The Chief Executive of Wolverhampton Homes Limited held the post of Strategic Director of Housing. The Strategic Director of Housing was formally employed by Wolverhampton Homes Limited and 50% of the 2017-2018 pay costs are recharged to the City of Wolverhampton Council; £139,000 (2016-2017: £137,662) of which the Council's annualised share is £69,500 (2016-2017: £68,831).

Note 8: The Director of Finance post was held by two individuals during 2017-2018. The current post holder, with an annualised salary of £90,223 for 2017-2018, had been redesignated from the Chief Accountant post with effect from 1 September 2017. The previous post holder, with an annualised salary of £108,845 for 2017-2018, was appointed to the Strategic Director of People post with effect from 1 September 2017. Between April 2017 and March 2018 pay costs of £13,810, included in the table against the Director of Finance, were funded by West Midlands Pension Fund, and not from the City of Wolverhampton Council General Fund.

Note 9: Between April 2017 and March 2018 pay costs of £15,850, included in the table against the Director of Governance, were funded by West Midlands Pension Fund, and not from the City of Wolverhampton Council General Fund.

Note 10: The Director of Education took up position on 11 October 2017 and had an annualised salary of £108,845 for 2017-2018. The Director of Education post was held on an interim basis until 31 March 2017 and the costs shown are the full fees paid to the interim management agency and not the payment to the post holder.

Note 11: The Director of Children's Services post was created on 1 September 2017 from the deleted Service Director Children and Young People post. The post had an annualised salary of £102,010 for 2017-2018.

Note 12: The Director of Adult Services post was created on 1 September 2017 from the deleted Service Director Adult Social Care post. The post had an annualised salary of £102,010 for 2017-2018.

Note 13: The Director of Public post was created on 1 November 2017 from the deleted Service Director Public Health and Well-Being post. The post had an annualised salary of £102,010 for 2017-2018.

Note 14: The Service Director Children and Young People post was deleted on 31 August 2017 after a restructure. The post had an annualised salary of £90,223 for 2017-2018.

Note 15: The Service Director Adult Social Care post was deleted on 31 August 2017 after a restructure. The post had an annualised salary of £98,328 for 2017-2018.

Note 16: The Service Director Public Health and Well-Being post became vacant on 16 July 2017 and had an annualised salary of £98,453 for 2017-2018. The post was then held on an interim basis between 1 July 2017 and 30 November 2017 before being deleted following a restructure. The costs shown are the full fees paid to the interim management agency and not the payment to the post holder.

Note 17: The Service Director Housing post was redesignated from the Head of Housing post with effect from 1 October 2017 and had an annualised salary of £98,328 for 2017-2018. The Service Director Housing post was filled on 15 January 2018.

Note 18: The Service Director Health took up position on 2 January 2018 and had an annualised salary of £49,008 for 2017-2018. The current post holder occupies the post of Service Director Health on a part-time basis.

Note 19: The Service Director Commercial Services post holder is required to report directly to the head of the authority's paid service, the Managing Director. The Service Director Commercial Services took up position on 1 June 2017 and had an annualised salary of £98,328 for 2017-2018. The Service Director Commercial Services post was held on an interim basis until 31 May 2017 and the costs shown are the full fees paid to the interim management agency and not the payment to the post holder.

Note 20: The Service Director Public Service Reform post holder is required to report directly to the head of the authority's paid service, the Managing Director. The Service Director Public Service Reform took up position on 4 September 2017 and had an annualised salary of £90,223 for 2017-2018.

Note 21: The Assistant Director Investments and Finance took up position on 1 October 2017 and had an annualised salary of £93,152 for 2017-2018.

Note 22: The Chief Investment Officer post became vacant on 30 September 2017 and was replaced with the Assistant Director Investments and Finance post. The Chief Investment Officer post had an annualised salary of 98,328 for 2017-2018. During 2016-2017 the post of Assistant Director Investments became vacant on 30 November 2016 and was replaced with the Chief Investment Officer post.

Note 23: The Assistant Director Investments post became vacant on 30 November 2016 and was replaced with the Chief Investment Officer post. The Assistant Director Investments post had an annualised salary of £87,863 for 2016-2017.

Note 24: The Chief Accountant was redesignated to the Director of Finance post with effect from 1 September 2017. The post had an annualised salary of £75,957 for 2017-2018

Note 25: The Head of Corporate Communications post holder is required to report directly to the Managing Director.

Note 26: The Head of Service Improvement post holder is required to report directly to the Managing Director. The post was created on 1 August 2016 and the post holder had an annualised salary of £60,140 for 2016-2017.

Note 27: The Head of Service - Business Management post holder is required to report directly to the Managing Director. The Head of Service - Business Management took up position on 1 April 2017.

Note 28: The Head of Strategic Commissioning took up position on 1 July 2017 and had an annualised salary of £71,142 for 2017-2018. The Head of Strategic Commissioning post was held on an interim basis until 30 June 2017 and the costs shown are the full fees paid to the interim management agency and not the payment to the post holder.

## 2F Exit Packages

The following table provides information about exit packages payable by the Council during the year. This includes both schools and the Pension Fund.

| 2016-2017 | | | | | | | 2017-2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Other | | Total | | Value of Individual Package | Compulsory | | Other | | Total | |
| Number | £m | Number | £m | Number | £m | | Number | £m | Number | £m | Number | £m |
| - | - | - | - | - | - | £300,001 to £350,000 | - | - | 1 | 0.3 | 1 | 0.3 |
| - | - | - | - | - | - | £250,001 to £300,000 | - | - | - | - | - | - |
| - | - | 1 | 0.2 | 1 | 0.2 | £200,001 to £250,000 | - | - | - | - | - | - |
| - | - | 4 | 0.7 | 4 | 0.7 | £150,001 to £200,000 | - | - | 1 | 0.2 | 1 | 0.2 |
| 3 | 0.4 | - | - | 3 | 0.4 | £100,001 to £150,000 | - | - | 5 | 0.6 | 5 | 0.6 |
| 1 | 0.1 | 3 | 0.3 | 4 | 0.4 | £80,001 to £100,000 | - | - | 6 | 0.5 | 6 | 0.5 |
| 2 | 0.1 | 2 | 0.1 | 4 | 0.2 | £60,001 to £80,000 | - | - | 5 | 0.4 | 5 | 0.4 |
| 6 | 0.3 | 6 | 0.2 | 12 | 0.5 | £40,001 to £60,000 | 2 | 0.1 | 12 | 0.6 | 14 | 0.7 |
| 20 | 0.5 | 25 | 0.7 | 45 | 1.2 | £20,001 to £40,000 | 7 | 0.2 | 31 | 0.9 | 38 | 1.1 |
| 106 | 0.8 | 233 | 0.9 | 339 | 1.7 | Less than £20,000 | 72 | 0.6 | 252 | 1.0 | 324 | 1.6 |
| **138** | **2.2** | **274** | **3.1** | **412** | **5.3** | **Total** | **81** | **0.9** | **313** | **4.5** | **394** | **5.4** |

### 2G Amounts Payable to the Auditors

The table below shows amounts payable to the Council's external auditors during the year.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| | **Grant Thornton UK LLP** | |
| 0.189 | External audit (Council) | 0.189 |
| 0.021 | Certification of grant claims and returns | 0.019 |
| 0.126 | Additional work (*) | 0.016 |
| **0.336** | **TOTAL** | **0.224** |

* The fees payable Grant Thornton UK LLP for additional work relate to -

- 2 participants on the Strategic Management Programme - £5,500
- Income generation project - £2,700
- Compliance confirmation by the City of Wolverhampton College regarding post 16 special educational needs funding - £7,500

## 2H Grants

The table below shows the grants and contributions that have been credited to the CIES during the year.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| | **Credited to Net Cost of Services** | |
| (84.7) | DSG Schools Block | (74.7) |
| (53.9) | Mandatory Rent Rebates Subsidy | (50.7) |
| (54.1) | Mandatory Rent Allowance | (50.6) |
| (22.8) | DSG High Needs Block | (25.1) |
| (21.9) | Public Health Grant | (21.3) |
| (15.0) | DSG Early Years Block | (16.3) |
| (9.2) | LA Private Finance Initiative Revenue Schools (PFI) | (9.1) |
| (10.1) | Pupil Premium | (9.0) |
| (1.6) | Further Education | (2.9) |
| (1.3) | HeadStart Wolverhampton | (2.7) |
| - | 6th Form Funding | (2.2) |
| (2.2) | Housing & Council Tax Benefit Administration | (2.1) |
| (1.9) | Universal Infant Free School Meals | (1.8) |
| - | SBRR Threshold Changes Grant linked to 2017-2018 Revaluation | (1.4) |
| - | Discretionary Rent Allowances | (1.1) |
| (0.8) | Independent Living Fund Grant | (1.0) |
| (3.1) | 16-18 Bursary Fund | (0.1) |
| (2.4) | Education Support Grant | (0.6) |
| (1.2) | PCDL -Adult Learning | - |
| (8.8) | Other Grants | (9.3) |
| **(295.0)** | **Total Credited to Net Cost of Services** | **(282.0)** |

**2H Grants (Continued)**

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| | **Credited to Taxation and Non-Specific Grant Income** | |
| | | |
| | **Non Ring-Fenced Government Grants** | |
| (50.3) | Revenue Support Grant | - |
| (4.2) | New Homes Bonus (including adjustment grant) | (3.7) |
| 0.1 | Business Rates Autumn Statement Compensation | (5.6) |
| - | DCLG – Additional Improved Better Care Fund | (6.4) |
| - | DCLG – Improved Better Care Fund | (1.2) |
| - | DCLG – Adult Social Care Grant | (1.4) |
| (36.2) | Local Business Rates Top Up Grant | (42.1) |
| **(90.6)** | | **(60.4)** |
| | | |
| | **Capital Grants and Contributions** | |
| (5.1) | Section 31 Grant - Department of Transport | (3.5) |
| (5.5) | Schools Basic Needs Grant | (3.2) |
| (2.5) | Disabled Facilities Grant | (3.0) |
| (2.3) | HM Challenge Fund (Network Renewal) | (2.6) |
| (1.4) | Schools Condition Allocation | (1.7) |
| (2.0) | Local Growth Fund - Civic Halls Improvement | (1.5) |
| - | National Productivity Investment Fund (NPIF) | (0.5) |
| (0.3) | Football Foundation | (0.3) |
| (6.4) | Local Growth Fund – Interchange | (3.5) |
| (4.2) | Local Growth Fund - Access to Growth | (2.8) |
| (2.1) | Local Growth Fund - Bilston Urban Village | - |
| (0.3) | Local Growth Fund Feasibility | (0.5) |

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| - | Regeneration Zone | (0.3) |
| (0.7) | Devolved Formula Funding | (0.7) |
| - | Pennkids – Capacity Grant 30 Hours Free Childcare | (0.3) |
| (4.0) | Other Grants and Contributions | (5.1) |
| **(36.8)** | | **(29.5)** |
| | | |
| **(422.4)** | **Total Grants Credited to the CIES** | **(371.9)** |

### 2l Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education: The Dedicated Schools Grant (DSG). The DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools & Early Years Finance (England) Regulations 2015. The Schools Budget includes elements for a restricted range of educational services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and underspends on the two elements are required to be accounted for separately. The table below shows how the Council applied its DSG.

| Central Expenditure £m | 2016-2017 Individual Schools Budget £m | Total £m | | Central Expenditure £m | 2017-2018 Individual Schools Budget £m | Total £m |
|---|---|---|---|---|---|---|
| (13.5) | (196.6) | (210.1) | Final DSG for the year before academy recoupment | (6.7) | (218.9) | (225.6) |
| - | 86.5 | 86.5 | Academy figure recouped | | 107.7 | 107.7 |
| **(13.5)** | **(110.1)** | **(123.6)** | **Total DSG after academy recoupment for the year** | **(6.7)** | **(111.2)** | **(117.9)** |
| | | | | | | |
| 2.0 | - | 2.0 | Brought forward from previous year | - | 1.8 | 1.8 |
| - | - | - | Carry-forward to following year agreed in advance | - | - | - |
| **(11.5)** | **(110.1)** | **(121.6)** | **Agreed initial budgeted distribution in the year** | **(6.7)** | **(109.4)** | **(116.1)** |
| | | | | | | |
| **(11.5)** | **(110.1)** | **(121.6)** | **Final budgeted distribution for the year** | **(6.7)** | **(109.4)** | **(116.1)** |
| | | | | | | |
| 11.5 | - | 11.5 | Less actual central expenditure | 8.5 | - | 8.5 |
| - | 111.9 | 111.9 | Less actual ISB deployed to schools | - | 107.6 | 107.6 |
| **-** | **1.8** | **1.8** | **(Under) Overspend carried forward to following year** | **1.8** | **(1.8)** | **-** |

**Note 2J Exceptional Items**

There were no exceptional items of expense or income in 2017-2018.

**2K Events after the Reporting Period**

**Academy Conversions**

On 1 April 2018 Villiers Primary School converted to Academy status. As a result, the assets of these schools, with a carrying value totalling £2.8 million, will be de-recognised in the Council's 2018-2019 accounts. This de-recognition will be treated as a disposal and will be recognised in the Losses/(gains) on the Disposal of Non-Current Assets line in the Comprehensive Income and Expenditure Statement.

There have been no other significant events occurring between the Balance Sheet date and the approval of the accounts that require adjustment or additional disclosures.

### Note 3 Other Operating Expenditure

| 2016-2017 Gross Expenditure £m | 2016-2017 Gross Income £m | 2016-2017 Net Expenditure £m | | 2017-2018 Gross Expenditure £m | 2017-2018 Gross Income £m | 2017-2018 Net Expenditure £m |
|---|---|---|---|---|---|---|
| 11.3 | - | 11.3 | Levies | 11.0 | - | 11.0 |
| 2.1 | - | 2.1 | Payments to the Housing Capital Receipts Pool | 2.2 | - | 2.2 |
| 47.6 | (16.2) | 31.4 | Losses/(gains) on the Disposal of Non-Current Assets | 26.1 | (15.8) | 10.3 |
| **61.0** | **(16.2)** | **44.8** | | **39.3** | **(15.8)** | **23.5** |

### Note 4 Financing and Investment Income and Expenditure

| 2016-2017 Gross Expenditure £m | 2016-2017 Gross Income £m | 2016-2017 Net Expenditure £m | | 2017-2018 Gross Expenditure £m | 2017-2018 Gross Income £m | 2017-2018 Net Expenditure £m |
|---|---|---|---|---|---|---|
| 2.4 | (1.7) | 0.7 | External Training Organisations | 3.1 | (2.1) | 1.0 |
| 36.0 | - | 36.0 | Interest Payable | 36.9 | - | 36.9 |
| 18.2 | - | 18.2 | Net Interest Expense-Pensions | 16.8 | - | 16.8 |
| - | (0.5) | (0.5) | Interest Receivable | 0.0 | (0.5) | (0.5) |
| - | - | - | Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value | 4.1 | - | 4.1 |
| - | (1.5) | (1.5) | Other Investment Income | - | (2.0) | (2.0) |
| **56.6** | **(3.7)** | **52.9** | | **60.9** | **(4.6)** | **56.4** |

**Note 5 Taxation and Non-Specific Grant Income and Expenditure**

| 2016-2017 | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| - | (37.8) | (37.8) | National Non-Domestic Rates | - | (70.5) | (70.5) |
| - | (81.7) | (81.7) | Council tax | - | (97.0) | (97.0) |
| - | (90.6) | (90.6) | Non ring-fenced Revenue Grants Receivable | - | (60.4) | (60.4) |
| - | (36.9) | (36.9) | Capital Grants Receivable | - | (29.5) | (29.5) |
| **-** | **(247.0)** | **(247.0)** | **Taxation and non-specific grant income and expenditure** | **-** | **(257.4)** | **(257.4)** |



**Note 6 Current Receivables and Payables**

The tables below show amounts owed to the Council (receivables), and amounts owed by the Council (payables) at the end of the year, split by type of organisation.

**6A Current Receivables**

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Council £m | *Group £m* | Type of Organisation | Council £m | *Group £m* |
| 5.7 | *5.7* | Central government bodies | 4.6 | *4.6* |
| 1.2 | *1.2* | Other local authorities | 1.8 | *1.8* |
| 8.4 | *8.4* | NHS bodies | 5.6 | *5.6* |
| 48.6 | *47.8* | Bodies external to general government | 54.5 | *56.7* |
| **63.9** | ***63.1*** | **Total** | **66.5** | ***68.7*** |

### 6B Current Payables

| 31 March 2017 | | Type of Organisation | 31 March 2018 | |
|---|---|---|---|---|
| Council £m | *Group £m* | | Council £m | *Group £m* |
| (4.9) | *(6.1)* | Central government bodies | (3.8) | *(5.4)* |
| (1.4) | *(1.4)* | Other local authorities | (1.7) | *(1.7)* |
| (1.0) | *(1.0)* | NHS bodies | (0.7) | *(0.7)* |
| (77.2) | *(77.6)* | Bodies external to general government | (74.1) | *(76.1)* |
| **(84.5)** | ***(86.1)*** | **Total** | **(80.3)** | ***(83.9)*** |

### Note 7 Provisions, Contingent Liabilities and Guarantees



### 7A Provisions

| Balance at 31 March 2017 £m | Provision Name | Provision Details | Amounts Used in 2017-2018 £m | Contribution to/from Provisions 2017-2018 £m | Balance at 31 March 2018 £m |
|---|---|---|---|---|---|
| (2.5) | Capitalisation Risks | This provision is in respect of potential claims under equal pay legislation. It is currently uncertain when payments might need to be made, and the value of any such payments. | 1.0 | - | (1.5) |
| (2.3) | Insurance | The Council self-insures risks to property and assets up to a total aggregate limit of £1.0 million and its liability exposures up to a limit of £250,000 on any one occurrence above which limits the external insurance cover operates. The insurance provision of £2.3 million is in respect of the outstanding claims under the self-insurance programme covering the current and past years. | - | - | (2.3) |
| (0.1) | Termination Benefits | During 2017-2018, the Council continued to accept applications for voluntary redundancy. As a result of this initiative, there were a number of employees and former employees to whom | 0.1 | (1.0) | (1.0) |

| Balance at 31 March 2017 £m | Provision Name | Provision Details | Amounts Used in 2017-2018 £m | Contribution to/from Provisions 2017-2018 £m | Balance at 31 March 2018 £m |
|---|---|---|---|---|---|
| | | termination benefits were due, but had not yet been made, at the end of the year. | | | |
| (0.1) | Midlands Housing Consortium (MHC) | MHC was previously a member of the West Midlands Pension Fund. It paid a lump sum to the Council to support pension payments to fund members. This provision will reduce gradually over time as pension payments are made. | - | - | (0.1) |
| (0.1) | Housing Revenue Account | There are three separate provisions: for legal disrepair claims, for tenant management organisation expenditure and for rent bonds. | 0.1 | - | - |
| (6.2) | Outstanding NNDR Appeals | The Collection Fund account requires a provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2018. | 5.2 | (6.2) | (7.2) |
| - | Waste and Recycling | Costs relating to the waste and recycling service. | - | (2.3) | (2.3) |
| - | Court costs | Court costs relating to a case settled out of court. | - | (0.2) | (0.2) |
| - | Other | These are small amounts relating to ex-members of the pension fund and refunds of aftercare payments made by residents subsequently falling within Section 117 of the Mental Health Act 1983 and from whom charges are not due. | - | (0.1) | (0.1) |
| **(11.3)** | **Total** | | **6.4** | **(9.8)** | **(14.7)** |

### 7B Contingent Liabilities

At 31 March 2018, the Council had the following contingent liabilities:

- The Council entered into a waste disposal contract on 8 February 1996. Under the contract, the waste disposal contractor has constructed a waste energy plant at an estimated cost of £26.6 million and the plant became operational in February 1998. If the contract is terminated by the Council for any reason, the Council becomes liable to pay to the contractor a sum, (the termination sum), equal to 90% of £26.6 million, written down to zero on a straight-line depreciation basis over 25 years commencing from the date the plant became operational. The unexpired value of the termination sum at 31 March 2018 is £5.1 million (31 March 2017 - £6.1 million).

- A contingent liability exists for the costs of Equal Pay compensation. The Council has established a provision for £1.5 million (31 March 2017: £2.5 million). The potential costs of any further cases not addressed by this provision cannot be reliably quantified at this stage.

- There are several instances where the Council has acquired title to assets of land and buildings due to the use of compulsory purchase orders or an interest in land and buildings subject to blight notices. In these situations, there has been no transfer of economic benefits due to difficulties in either establishing the original owner or in reaching an agreement to the level of compensation to be transferred. The existence of a recognisable liability can only be confirmed at the point that the owner comes forward to claim reimbursement or the formal acknowledgment of blight has been established. The total value of these cases as at 31 March 2018 is estimated at £700,000 (31 March 2017: £900,000).

- During 2017-2018, the Council continued to accept applications for voluntary redundancy. There were a number of applications for voluntary redundancy that were approved prior to the balance sheet date for payment during 2017-2018 for which a provision of £1 million (31 March 2017: £100,000) has been raised. There are, however, a number of applications for voluntary redundancy in progress which had not received sufficient approvals as at the Balance Sheet date to make it reasonably certain that a redundancy would ultimately result. It is not possible to place a reliable estimate on the number of such applications that will ultimately result in redundancy, and therefore the value of any resulting liability.

- Advantage West Midlands (AWM) arranged for the land at i54 to be remediated in 2004 and any contamination found at that time was removed from the site. At the time of purchasing part of the land at i54 from Severn Trent Water, AWM (now succeeded by the Housing and Community Agency (HCA)) agreed to indemnify Severn Trent against any future contamination claims from third parties. When Staffordshire County Council purchased the land at i54 from the HCA, Staffordshire County Council was required to agree to the same indemnity relating to the former Severn Trent land. Under the Joint Venture Agreement relating to i54, City of Wolverhampton Council would be required to fund 50% of any liability arising from this indemnity, subject to a cap of £2.0 million.

- A further, separate contingent liability exists with respect to infrastructure works at the i54 development. Staffordshire County Council have provided a comprehensive warranty to Jaguar Cars Limited in respect of the design element for earthworks to plots. Under the Joint Venture Agreement relating to i54, the City of Wolverhampton would be required to fund 50% of any liability arising from this warranty, subject to a cap of £2.5 million.

- The Council was previously insured by Municipal Mutual Insurance (MMI). MMI is subject to a contingent Scheme of Arrangement, the terms of which were triggered in November 2012. As a result, there is the possibility that the Council may be subject to clawback of both previous and future paid claims. A payment of £208,836 was made in 2015-2016 based on a 25% levy applied taking the total paid to date to £503,587. Further payments are anticipated. If the levy was increased to 50% the clawback is estimated to be approximately £568,000.

- In November 2014, the Employee Appeal Tribunal ruled that non-guaranteed overtime should be taken into account when calculating the amount due to employees in respect of holiday pay and that backdated claims can be made. As a result, there is a contingent liability for any potential claims from Council employees that may arise. It is not possible to place a reliable estimate on the number of claims, and therefore the value of any resulting liability



**7B Contingent Assets**

At 31 March 2018, the Council did not have any contingent assets.

**7C Pensions Guarantees**

The Council has provided guarantees to a number of organisations at the point that were admitted to West Midlands Pension Fund, to fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Council considers to be material for these purposes) are:-

- Wolverhampton Homes (£37.6million as per IAS19 calculation at 31 March 2018),
- Black Country Consortium (£1.6million as per FRS102 calculation at 31March 2018),
- Wolverhampton Voluntary Sector Council (£200,000 as per the 2016 Valuation)
- Bushbury Hill Estate Management Board (£672,000 as per FRS102 calculation at 31 March 2018)

There are a further 15 organisations with a pension liability less than £195,000.

The Council has applied the liability adequacy test to determine whether recognition is appropriate. The Council has considered various factors in determining the probability of the guarantees being called, including risk of failure of the business as informed by Dun and Bradstreet Business Failure Scores and membership profile. As a result, the Council is satisfied that the guarantees do not represent a significant potential liability for the Council and therefore there is no recognition in the Comprehensive Income and Expenditure Statement.

During 2017-2018 the Council has provided a new guarantee in respect to the West Midlands Pension Fund for the City of Wolverhampton College. The pension fund deficit was calculated to be £12.4 million at the time of the 2016 Valuation. The Council has considered the probability of the guarantee being called and the likely amount payable under the guarantee. The probability of the guarantee being called is not considered to be significant and as a result the fair value is not considered material. Therefore, the guarantee is not recognised in the Comprehensive Income and Expenditure Statement.

**7D Financial Guarantee Contract**



The Council has provided a guarantee to the City of Wolverhampton College in respect of bank loans. In accordance with IAS 39, the Fair value of the guarantee has been estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee. The probability of the guarantee being called is not considered to be significant and as a result the fair value is considered in-material. Therefore, the guarantee is not recognised in the Comprehensive Income and Expenditure Statement.

## Note 8 Non-Current Assets

| | Council Dwellings £m | Other Land and Buildings £m | Vehicles, Plant, Furniture and Equipment £m | Infrastructure Assets £m | Community Assets £m | Surplus Assets £m | Property Plant and Equipment Subtotal £m | Investment Properties £m | Intangible Assets £m | Heritage Assets £m | Assets Held for Sale £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Value** | | | | | | | | | | | | |
| At 31 March 2017 | | | | | | | | | | | | |
| -As previously reported | **687.8** | **516.8** | **80.9** | **295.7** | **15.8** | **23.0** | 1,620.0 | **41.8** | **11.6** | **11.5** | **0.3** | **1,685.2** |
| | | | | | | | - | | | | | **-** |
| Additions | 36.3 | 25.4 | 4.7 | 10.2 | 0.2 | 0.3 | 77.1 | 2.4 | 1.4 | - | - | **80.9** |
| Disposals | (7.9) | (15.3) | - | - | (0.2) | (2.1) | (25.5) | (1.7) | - | - | (0.3) | **(27.5)** |
| Revaluations / Fair Value Gains/(Losses) | | | | | | | | | | | | **-** |
| -Recognised in revaluation reserve | - | 12.8 | - | - | - | 1.8 | 14.6 | - | - | 0.1 | - | **14.7** |
| -Recognised in surplus/(deficit) on provision of services | (88.2) | (9.9) | (0.1) | - | - | (1.3) | (99.5) | (4.6) | - | - | - | **(104.1)** |
| Impairments | - | (1.8) | (0.1) | - | - | - | (1.9) | - | - | - | - | **(1.9)** |
| Other Changes - Gross Value | - | 3.6 | - | - | - | (3.6) | - | - | - | - | - | **-** |
| **Gross Value as at 31 March 2018** | **628.0** | **531.6** | **85.4** | **305.9** | **15.8** | **18.1** | **1,584.8** | **37.9** | **13.0** | **11.6** | **-** | **1,647.3** |
| | | | | | | | | | | | | |
| **Accumulated Depreciation / Impairment** | | | | | | | | | | | | |
| At 31 March 2017 | | | | | | | | | | | | |
| -As previously reported | - | 20.3 | 70.5 | 160.0 | 0.8 | 2.3 | 253.9 | 1.8 | 5.2 | - | - | **260.9** |
| -Prior year adjustments | **-** | **-** | **-** | **-** | **-** | **-** | - | **-** | **-** | **-** | | **-** |
| -As restated | **-** | **20.3** | **70.5** | **160.0** | **0.8** | **2.3** | 253.9 | **1.8** | **5.2** | **-** | **-** | **260.9** |
| | | | | | | | - | | | | | **-** |
| Disposals | - | (1.0) | - | - | - | (0.3) | (1.3) | (0.1) | - | - | - | **(1.4)** |
| Depreciation/amortisation | 17.0 | 12.5 | 3.5 | 9.1 | - | 0.3 | 42.4 | - | 2.2 | - | - | **44.6** |
| Depreciation writeback on revaluation | | | | | | | | | | | | **-** |
| -Recognised in the Revaluation Reserve | - | (13.6) | - | - | - | (0.3) | (13.9) | - | - | - | - | **(13.9)** |
| -Recognised in the Surplus/Deficit on the Provision of Services | (17.0) | (9.9) | - | - | - | (0.2) | (27.1) | - | - | - | - | **(27.1)** |
| Other Changes | - | 0.3 | - | - | - | (0.3) | - | - | - | - | - | **-** |
| **Accumulated Depreciation / Impairment at 31 March 2018** | **-** | **8.6** | **74.0** | **169.1** | **0.8** | **1.5** | 254.0 | **1.7** | **7.4** | **-** | **-** | **263.1** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2018** | **628.0** | **523.0** | **11.4** | **136.8** | **15.0** | **16.6** | 1,330.8 | **36.2** | **5.6** | **11.6** | **-** | **1,384.2** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2017** | **687.8** | **496.5** | **10.4** | **135.7** | **15.0** | **20.7** | 1,366.1 | **40.0** | **6.4** | **11.5** | **0.3** | **1,424.3** |

| | Council Dwellings £m | Other Land £m | Other Buildings £m | Vehicles, Plant, Furniture and Equipment £m | Infrastructure Assets £m | Community Assets £m | Surplus Assets £m | Property Plant and Equipment Subtotal £m | Investment Properties £m | Intangible Assets £m | Heritage Assets £m | Assets Held for Sale £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Value** | | | | | | | | | | | | | |
| At 31 March 2016 | | | | | | | | | | | | | |
| -As previously reported | 620.0 | 615.1 | | 78.2 | 282.9 | 15.4 | 27.3 | 1,638.9 | 27.3 | 8.3 | 11.5 | - | **1,686.0** |
| -Prior year adjustment | - | - | | - | - | - | - | - | - | - | - | | **-** |
| -As restated | **620.0** | **615.1** | | **78.2** | **282.9** | **15.4** | **27.3** | 1,638.9 | **27.3** | **8.3** | **11.5** | **-** | **1,686.0** |
| Additions | 33.6 | 29.3 | | 2.8 | 12.8 | 0.4 | 0.2 | 79.1 | 14.3 | 3.3 | - | - | **96.7** |
| Disposals | (7.4) | (39.8) | | (0.1) | - | - | (1.9) | (49.2) | - | - | - | - | **(49.2)** |
| Revaluations / Fair Value Gains/(Losses) | | | | | | | | | | | | | **-** |
| -Recognised in revaluation reserve | - | (35.0) | | - | - | - | (2.8) | (37.8) | - | - | - | - | **(37.8)** |
| -Recognised in surplus/(deficit) on provision of services | 41.6 | (47.4) | | - | - | - | (5.8) | (11.6) | (1.0) | - | - | - | **(12.6)** |
| Impairments | - | - | | - | - | - | (0.1) | (0.1) | - | - | - | - | **(0.1)** |
| Other Changes - Gross Value | - | (5.4) | | - | - | - | 6.1 | 0.7 | 1.2 | - | - | 0.3 | **2.2** |
| **Gross Value as at 31 March 2017** | **687.8** | **516.8** | | **80.9** | **295.7** | **15.8** | **23.0** | **1,620.0** | **41.8** | **11.6** | **11.5** | **0.3** | **1,685.2** |
| | | | | | | | | | | | | | |
| **Accumulated Depreciation / Impairment** | | | | | | | | | | | | | |
| At 31 March 2016 | | | | | | | | | | | | | |
| -As previously reported | 21.8 | 65.6 | | 67.2 | 152.1 | 0.8 | 4.0 | 311.5 | 1.8 | 3.7 | - | - | **317.0** |
| -Prior year adjustments | - | - | | - | - | - | - | - | - | - | - | | **-** |
| -As restated | **21.8** | **65.6** | | **67.2** | **152.1** | **0.8** | **4.0** | **311.5** | **1.8** | **3.7** | **-** | **-** | **317.0** |
| Disposals | - | (1.2) | | - | - | - | (0.5) | (1.7) | - | - | - | - | **(1.7)** |
| Depreciation/amortisation | 21.8 | 23.6 | | 3.3 | 7.9 | - | 0.7 | 57.3 | - | 1.5 | - | - | **58.8** |
| Depreciation writeback on revaluation | | | | | | | | | | | | | **-** |
| -Recognised in the Revaluation Reserve | - | (27.7) | | - | - | - | - | (27.7) | - | - | - | - | **(27.7)** |
| -Recognised in the Surplus/Deficit on the Provision of Services | (43.6) | (40.0) | | - | - | - | (1.9) | (85.5) | - | - | - | - | **(85.5)** |
| Other Changes | - | - | | - | - | - | - | - | - | - | - | - | **-** |
| **Accumulated Depreciation / Impairment at 31 March 2017** | **-** | **20.3** | | **70.5** | **160.0** | **0.8** | **2.3** | **253.9** | **1.8** | **5.2** | **-** | **-** | **260.9** |
| | | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2017** | **687.8** | **496.5** | | **10.4** | **135.7** | **15.0** | **20.7** | **1,366.1** | **40.0** | **6.4** | **11.5** | **0.3** | **1,424.3** |
| | | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2016** | **598.2** | **549.5** | | **11.0** | **130.8** | **14.6** | **23.3** | **1,327.4** | **25.5** | **4.6** | **11.5** | **-** | **1,369.0** |

**Asset Disposals**

The total net book value of assets disposed of in the year of £26.1 million (2016-2017: £47.6 million) includes £13.3 million (2016-2017: £36.2 million) in respect of assets derecognised in respect of schools that have converted to Academies for which no consideration was received.

**Depreciation/Amortisation**

Property, plant and equipment assets are depreciated on a straight-line basis over the estimated useful economic life of the asset. Council dwellings are depreciated according to the useful economic life of their major components. Intangible assets are amortised on the straight-line basis over the estimated useful economic life of the asset. No depreciation is charged on investment properties, heritage assets or land. The following asset lives are used to determine the depreciation charge:

| | |
|---|---|
| Council Dwellings | Up to 30 years |
| Infrastructure assets | 1-49 years |
| Surplus assets | 1-49 years |
| Other buildings | 1-57 years |
| Plant and equipment | 1-37 years |
| Vehicles | 1-7 years |
| Intangible assets | 1-5 years |



**Revaluations**

The Council has all property, plant and equipment assets required to be valued at current value and with a current Net Book value in excess of £1.0 million valued annually and carries out a rolling programme that ensures the remainder are revalued at least every five years. The Council seeks assurance for the assets not valued that there is no material change to their value. These valuations are accurate as of 31 March 2018. The valuations were carried out by external valuers. The housing stock valuation was carried out by the Valuation Office Agency while the other valuations were carried out by Bruton Knowles, registered RICS valuers, using the guidance and methodology set out in the following paragraphs.

**Legislation and guidance**

Valuations are carried out as required by Sections 41 to 42 of The Local Government Housing Act 1989 and in accordance with CIPFA/IFRS guidance and the RICS Valuation Standards (Red Book). The valuations are subject to any limitations, caveats and assumptions as agreed between the Section 151 Officer and the Head of Corporate Landlord.

**Basis of Valuation**

In accordance with the CIPFA Code of Practice on Local Authority Accounting 2017-2018, infrastructure, community assets, and assets under construction are valued at depreciated historical cost. All other classes of asset are measured at current value. For vehicles, plant, furniture and equipment current value is determined by depreciated historical cost due to the short useful life of these assets (2-7 years depending on the asset). The current value of Council dwellings is measured using existing use value (social housing). For all other asset classes, where there is no market-based evidence of current value, the Council estimates current value using the depreciated replacement cost approach. The following table describes the measurement basis used to determine the gross carrying value of each of the Council's classes of non-current assets.

| Asset Class | Measurement Base |
|---|---|
| Council Dwellings | Current value based on existing use value (social housing) (EUV-SH). |
| Other Land and Buildings | Current value based on existing use value (EUV) or depreciated replacement cost (DRC) using the "instant build" approach if EUV cannot be determined. |
| Vehicles, Plant, Furniture and Equipment | Current value based on depreciated historical cost due to the short useful life of the asset. |
| Infrastructure Assets | Depreciated historical cost. |
| Community Assets | Depreciated historical cost or valuation. |
| Surplus Assets | Fair value estimated at highest and best use from a market participant's perspective using level 2 inputs. |
| Assets Under Construction | Depreciated historical cost. |
| Investment Properties | Initially measured at cost (defined as the purchase price plus any directly attributable cost of preparing the asset for its intended use) and subsequently measured at fair value. Fair values have been determined by multiplying estimated net income by an appropriate investment yield or by reference to the value of similar assets. All investment properties have been valued using level 2 inputs. |
| Intangible Assets | Amortised Cost |
| Heritage Assets | Where the Council has information on the cost or value of the asset, the asset is recognised at this amount. |

**Inspection**

A desktop exercise is carried out using information from the land registry. It is assumed that any building is constructed in accordance with Building Regulations and does not contain any deleterious or hazardous substances. Detailed building surveys are not requisitioned unless there are obvious areas of concern which are likely to affect the valuation.

**Key Assumptions**

- Planning - Planning consideration is, in the first instance, by reference to the Local Development Framework to ensure the use of the property to be valued is in accordance with the Council's stated policies.
- Ground Conditions - no reference is made to ground conditions unless it is evident upon inspection that a particular property has been affected by exceptional external influences greater than would be anticipated for its locality.
- Contamination - no reference is made to contamination unless, upon inspection, it is evident that a particular property has been affected by external influences greater than would be anticipated for its locality.

**Capital Commitments**

At 31 March 2018, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017-2018 and future years with an estimated total value of £71.7 million (31 March 2017: £56.4 million). The major commitments are: Heath Town Regeneration (£26.0 million), Interchange (£17.9 million), Civic and Wulfrun Halls (£8.3 million), Tapworks (£4.0 million), Tower & Fort Works (£2.4 million), FutureSpaces (£2.4 million), Housing - New Build (£2.3 million).



**Investment Properties**

During the year, the Council had £3.7 million of income receivable from investment properties (2016-2017: £2.3 million) and spent £500,000 on managing and maintaining those properties (2016-2017: £500,000). There are no restrictions on the Council's ability to realise the value of its investment property, the remittance of income or the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property, or for it to carry out repairs, maintenance or enhancements.

**Impairment**

Impairments to non-current assets totalling £1.9 million were recognised in year, resulting mainly from building demolitions.

**Capital Financing Requirement**

The Council's capital financing requirement, which represents the underlying need to borrow to pay for past capital expenditure, was £874.5 million at 31 March 2018 (31 March 2017: £863.2 million).

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to

revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

| 2016-2017 £m (Restated) | | 2017-2018 £m |
|---|---|---|
| **842.2** | **Opening Capital Financing Requirement** | **863.1** |
| | | |
| | **Capital Investment** | |
| 79.2 | Property, Plant and Equipment | 77.2 |
| 14.2 | Investment Properties | 2.4 |
| 3.3 | Intangible Assets | 1.4 |
| 19.1 | Revenue Expenditure Funded from Capital under Statute | 20.4 |
| | | |
| | **Sources of finance** | |
| (12.5) | Capital Receipts | (16.3) |
| (36.0) | Government Grants and other Contributions | (28.9) |
| - | Sums set aside from Revenue: | - |
| (23.8) | Direct Revenue Contributions | (17.6) |
| (22.5) | MRP/Loans Fund Principal | (27.2) |
| | | |
| **863.2** | **Closing Capital Financing Requirement** | **874.5** |
| | | |
| | **Explanation of movements in year** | |
| 20.9 | Increase in underlying need to borrow (unsupported by government financial assistance) | 11.3 |
| - | Assets acquired under finance leases | - |
| 0.1 | Assets acquired under PFI contracts | 0.1 |
| | | |
| **21.0** | **Increase/(decrease) in Capital Financing Requirement** | **11.4** |

**Note 9 Employee Pensions**

**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 three post-employment schemes and provides a further local discretionary scheme:

- The Local Government Pension Scheme, administered locally by the West Midlands Pension Fund. From 1 April 2014 the LGPS moved from a defined benefit final salary scheme to a Career Average Revalued Earnings (CARE) scheme. The Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets. The benefits a member builds up from 1 April 2014 will be based on the CARE scheme calculation; the benefits built up to 31 March 2014 will be protected under the Final Salary calculation.

- Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. During the year, the Council contributed £5.9 million which was a contribution rate of 16.48% (2016-2017: £6.3 million; 16.48%).

- There are a number of employees transferred from the NHS, when certain public health services were transferred to the Council 4 years ago, who are members of the NHS pension scheme.

- In addition, the Council is responsible for all non-funded pension payments relating to added years' enhancements it has awarded outside the terms of the teachers' scheme together with related increases.

Both the Teachers' and NHS pension schemes are unfunded, and it is not possible to identify the Council's share of the liabilities. As a result, these schemes are accounted for as defined contribution schemes.

From April 2014, pensions are worked out in a different way as the scheme became a career average scheme. Benefits built up from April 2014 are worked out using actual pay each scheme year rather than final salary when an employee leaves. Protections are in place for all the benefits built up in the final salary scheme.

**Transactions Relating to Post-Employment Benefits**

The Council recognises the cost of retirement benefits in the 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 in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

| 2016-2017 | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|
| Council | | Subsidiary | | Council | | Subsidiary |
| LGPS | Teachers | | | LGPS | Teachers | |
| £m | £m | £m | | £m | £m | £m |
| | | | **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT** | | | |
| | | | Cost of Services: | | | |
| (24.7) | - | (3.5) | - Current service cost* | (39.5) | - | (6.0) |
| - | - | - | - Past service costs | - | - | - |
| 5.1 | - | - | - Settlements and curtailments | 4.4 | - | (0.2) |
| (0.4) | - | (0.1) | - Administration Expenses | (0.5) | - | (0.1) |
| | | | Financing and Investment Income and Expenditure: | | | |
| (16.7) | (1.6) | (1.1) | - Net Interest cost | (15.5) | (1.2) | (1.0) |
| | | | | | | |
| **(36.7)** | **(1.6)** | **(4.7)** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **(51.1)** | **(1.2)** | **(7.3)** |
| | | | | | | |
| | | | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement: | | | |
| (120.1) | (1.9) | (4.8) | - Remeasurements (liabilities and assets) * | 32.2 | (1.8) | 1.7 |
| **(156.8)** | **(3.5)** | **(9.5)** | **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **(18.9)** | **(3.0)** | **(5.6)** |
| | | | | | | |
| | | | **MOVEMENT IN RESERVES STATEMENT** | | | |
| (36.7) | (1.6) | - | - Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | (51.1) | (1.2) | - |
| | | | | | | |
| | | | Actual amount charged against the General Fund Balance for pensions in the year: | | | |
| 29.1 | - | 3.1 | - Employer's contributions payable to scheme | 39.4 | - | 3.6 |
| | 3.8 | | - Retirement benefits payable to pensioners | - | 4.3 | - |
| **(7.6)** | **2.2** | **3.1** | **Total Movement in Reserves** | **(11.7)** | **3.1** | **3.6** |

* The current service cost has increased substantially for most employers this year and this is a result of the changes in financial assumptions that took place as at 31 March 2017.

The current service cost is based on assumptions at the start of the accounting period. Last year, there was a significant reduction in the discount rate from 3.6% p.a. to 2.7% p.a. due to falling corporate bond yields. In addition, there was a significant increase in the inflation assumption from 2.0% p.a. to 2.7% p.a. Both movements led to a substantial increase in liabilities at 31 March 2017, but they also substantially increased the assumed cost of benefits building up over the next year to 31 March 2018.

**Assets and Liabilities in Relation to Post-Employment Benefits**

The following tables show how the present values of the scheme assets and liabilities have changed over the course of the year:

| 2016-2017 | | Assets | 2017-2018 | |
|---|---|---|---|---|
| Council £m | Subsidiary £m | | Council £m | Subsidiary £m |
| **843.7** | **118.7** | **Opening balance at 1 April 2017** | **1,059.3** | **151.2** |
| 30.1 | 4.5 | Interest Income | 28.6 | 4.3 |
| 198.2 | 26.5 | Remeasurement Gain/(Loss) | (27.9) | (4.2) |
| 29.1 | 3.1 | Employer contributions | 39.4 | 3.6 |
| 6.8 | 1.0 | Contributions by scheme participants | 6.8 | 1.1 |
| (47.4) | (2.5) | Benefits paid | (44.5) | (2.9) |
| (0.8) | - | Settlements | (0.2) | - |
| (0.4) | (0.1) | Admin Expenses | (0.4) | (0.1) |
| **1,059.3** | **151.2** | **Closing balance at 31 March 2018** | **1,061.1** | **153.0** |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £700,000 (2016-2017: Gain £180.2 million).

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £642.0 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, because:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme's actuary;
- Finance is only required to be raised to cover discretionary benefits when the pensions are paid.
- The Council works with the West Midlands Pension Fund to ensure that employer contributions are at a rate which is affordable, given current economic pressures which are being experienced by many local authorities. The Council has agreed a strategy with the Fund and its actuaries whereby the Future Services Contribution is determined based upon a percentage of the monthly payroll payment and the Past Service Deficit totalling £96.4 million (based on the 2013 triennial valuation) will be recovered over the period from 2014-2015 to 2019-2020. Work on the 2016 triennial valuation was completed by 31 March 2017, with new contribution plans effective from 1 April 2017.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 are £32.1 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2019 are £1.4 million.

The Discretionary Benefits arrangements have no assets to cover their liabilities. The Local Government Pension Scheme's assets are set out in the table below. It is estimated that the Council has 7% of the share of the assets of the fund and that Wolverhampton Homes Limited has 1%.

All scheme assets have quoted prices in active markets, except UK unquoted and global unquoted.

| 2016-2017 | | | | | 2017-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Council | | | Subsidiary | | Council | | | Subsidiary |
| Funded: LGPS £m | Unfunded: LGPS £m | Unfunded: Teachers £m | Funded: LGPS £m | Liabilities | Funded: LGPS £m | Unfunded: LGPS £m | Unfunded: Teachers £m | Funded: LGPS |
| **(1,298.3)** | **(21.4)** | **(58.9)** | (148.0) | **Opening balance at 1 April** | **(1,639.7)** | **(23.1)** | **(58.7)** | **(186.8)** |
| (24.7) | - | - | (3.5) | Current service cost | (39.5) | - | - | (6.0) |
| (46.0) | (0.7) | (1.6) | (5.6) | Interest cost | (43.8) | (0.5) | (1.2) | (5.2) |
| (6.8) | - | - | (1.0) | Contributions - participants | (6.8) | - | - | (1.1) |
| (315.7) | (2.6) | (1.9) | (31.3) | Remeasurement Gain/(Loss) | 59.7 | 0.3 | (1.8) | 5.8 |
| 45.8 | 1.6 | 3.7 | 2.6 | Benefits paid | 42.9 | 1.6 | 4.3 | 2.9 |
| - | - | - | - | Past service costs | - | - | - | - |
| (2.9) | - | - | - | Curtailments | (2.4) | - | - | (0.2) |
| 8.9 | - | - | - | Settlements | 7.0 | - | - | - |
| **(1,639.7)** | **(23.1)** | **(58.7)** | **(186.8)** | **Closing balance at 31 March** | **(1,622.6)** | **(21.7)** | **(57.4)** | **(190.6)** |

| 2016-2017 LGPS | | Asset Category | 2017-2018 LGPS | |
|---|---|---|---|---|
| Council £m | Subsidiary £m | | Council £m | Subsidiary £m |
| 682.3 | 97.4 | Equities | 678.2 | 97.8 |
| 86.0 | 12.3 | Government Bonds | 77.5 | 11.2 |
| 43.9 | 6.3 | Other Bonds | 40.6 | 5.8 |
| 81.6 | 11.6 | Property | 81.7 | 11.8 |
| 30.2 | 4.3 | Cash/ liquidity | 26.1 | 3.7 |
| 135.3 | 19.3 | Other | 157.0 | 22.6 |
| **1,059.3** | **151.2** | **Total** | **1,061.1** | **152.9** |

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years' dependent on assumptions about variables such as mortality rates and salary levels. Both the Teachers' Discretionary Pension Scheme and the West Midlands Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the West Midlands Pension Fund are based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary are set out in the following table.

| 2016-2017 | | | | 2017-2018 | | |
|---|---|---|---|---|---|---|
| Council | | Subsidiary | | Council | | Subsidiary |
| LGPS | Teachers | | | LGPS | Teachers | |
| | | | | | | |
| | | | Mortality assumptions: | | | |
| | | | | | | |
| | | | Longevity at 65 for current pensioners (years): | | | |
| 21.8 | 21.8 | 21.8 | - Men | 21.9 | 21.9 | 21.9 |
| 24.2 | 24.2 | 24.2 | - Women | 24.3 | 24.3 | 24.3 |
| | | | | | | |
| | | | Longevity at 65 for future pensioners (years): | | | |
| 23.9 | 23.9 | 23.9 | - Men | 24.0 | n/a | 24.0 |
| 26.5 | 26.5 | 26.5 | - Women | 26.6 | n/a | 26.6 |
| | | | | | | |
| 2.7% | 2.3% | 2.7% | Rate of inflation | 2.4 | 2.4 | 2.3 |
| 4.2% | n/a | 4.2% | Rate of increase in salaries | 3.9 | n/a | 3.8 |
| 2.7% | 2.3% | 2.7% | Rate of increase in pensions | 2.4 | 2.4 | 2.3 |
| 2.7% | 2.1% | 2.8% | Rate for discounting scheme liabilities | 2.6 | 2.4 | 2.6 |

**Analysis of Group Net Pension Liability**

The following table analyses the net liability for the group.

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Local Government Pension Scheme | Discretionary Pension Scheme | | Local Government Pension Scheme | Discretionary Pension Scheme |
| £m | £m | | £m | £m |
| | | Estimated Liabilities in Scheme | | |
| (1,662.8) | (58.7) | City of Wolverhampton Council | (1,644.3) | (57.4) |
| (186.9) | - | Wolverhampton Homes Limited | (190.6) | - |
| **(1,849.7)** | **(58.7)** | **Total Liabilities** | **(1,834.9)** | **(57.4)** |
| | | | | |
| | | Estimated Assets in Scheme | | |
| 1,059.3 | - | City of Wolverhampton Council | 1,061.1 | - |
| 151.2 | - | Wolverhampton Homes Limited | 152.9 | - |
| **1,210.5** | **-** | **Total Assets** | **1,214.0** | |
| | | | | |
| **(639.2)** | **(58.7)** | **Net Liabilities** | **(620.9)** | **(57.4)** |

**Note 10 Financial Instruments**

The following table shows the financial instruments at their carrying value in the Balance Sheet.

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Long-Term | Current | | Long-Term | Current |
| £m | £m | | £m | £m |
| | | **Investments** | | |
| 1.3 | - | Loans and Receivables – Finance Leases | 1.3 | - |
| 24.2 | - | Available-for-sale Financial Assets - Birmingham Airport Shareholding | 23.7 | - |
| **25.5** | **-** | **Total Investments** | **25.0** | **-** |
| | | | | |
| | | **Current Assets** | | |
| - | 7.9 | Loans and Receivables -Investments | - | 7.5 |
| - | 1.1 | Loans and Receivables - Cash and Cash Equivalents | - | 2.2 |
| - | 63.9 | Loans and Receivables – Current Receivables | - | 65.5 |
| - | 0.5 | Inventories-non-financial instruments | - | 0.4 |
| **-** | **73.4** | **Total Current Assets** | **-** | **75.6** |
| | | | | |
| | | **Borrowings** | | |
| (573.2) | (91.6) | Financial Liabilities at Amortised Cost | (671.2) | (2.8) |
| **(573.2)** | **(91.6)** | **Total Borrowings** | **(671.2)** | **(2.8)** |
| | | | | |
| | | **Other Non-Current Liabilities** | | |
| (14.8) | | Debt arising from the County Council Reorganisation | (13.7) | |
| (97.9) | | PFIs | (92.2) | |
| (0.1) | | Finance Leases | - | |
| (6.3) | | Non-financial instruments | (6.6) | |
| **(119.1)** | | **Total Other Non-Current Liabilities** | **(112.5)** | |
| | | **Payables** | | |
| | (84.5) | Financial liabilities carried at contract amount | | (108.2) |
| | **(84.5)** | **Total Payables** | | **(108.2)** |

**10A Leases and Lease-Type Arrangements**

The Council has a significant number of properties including car parking facilities, shops and offices, industrial units, sport and recreational facilities and community centres which are leased out for the following purposes:

a) The provision of community services such as sport and recreation facilities and community centres; and
b) For economic development purposes to provide suitable accommodation for local businesses.

The table below summarises the amounts payable and receivable by the Council under lease agreements during the year, and the amounts that it expects to be payable or receivable under non-cancellable lease agreements in future years.

| 2016-2017 | | | | | 2017-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Amounts Payable | | Amounts Receivable | | | Amounts Payable | | Amounts Receivable | |
| Finance Leases £m | Operating Leases £m | Finance Leases £m | Operating Leases £m | | Finance Leases £m | Operating Leases £m | Finance Leases £m | Operating Leases £m |
| **-** | **0.4** | **-** | **4.5** | **Payable/receivable in the year** | **0.1** | **0.5** | **-** | **3.5** |
| | | | | | | | | |
| - | 0.4 | - | 3.4 | Due within one year | 0.1 | 0.4 | - | 3.3 |
| 0.1 | 0.5 | - | 10.5 | Due in one to five years | 0.1 | 1.1 | - | 11.0 |
| - | 0.4 | 5.9 | 31.4 | Due after five years | - | 0.4 | 5.9 | 23.7 |
| **0.1** | **1.3** | **5.9** | **45.3** | **Total due in future years** | **0.2** | **1.9** | **5.9** | **38** |

The following table shows the net carrying value of assets held by the Council under finance lease arrangements:

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 0.1 | Vehicles, Plant, Furniture and Equipment | 0.1 |
| **0.1** | **Total** | **0.1** |

### 10B Available-for-Sale Financial Assets - Birmingham Airport Shareholding

West Midlands Local Authorities collectively own 49% of Birmingham Airport Holdings Limited. The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. The shares are not quoted on a stock exchange. On behalf of the West Midlands Authorities, Solihull Council undertakes a valuation review using Level 2 Inputs using an Earnings Based Approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry. The valuation review resulted in a decrease of £500,000 in the shareholding of the Council.



### 10C Debtors

It is determined that the carrying amount for short term investments, cash and cash equivalents and trade receivables is a reasonable approximation of fair value. Further information on Accounts Receivable can be found in Note 8

An allowance is made for bad debts within the balance reported on the Balance Sheet. The following provides a summary of the changes in allowance made.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| **16.7** | **Allowance for Bad and Doubtful Debts Brought Forward** | **21.5** |
| (3.2) | Amounts Written Off during the Year | (2.9) |
| 8.0 | Increase in Allowance during the Year | 6.6 |
| **21.5** | **Allowance for Bad and Doubtful Debts Carried Forward** | **25.2** |

### 10D Private Finance Initiative (PFI) and Similar Contracts

The Council has four contracts which are PFIs or similar in nature and which are accounted for as 'on balance sheet': the Bentley Bridge Leisure Centre, the Waste Disposal Facility, Highfields and Penn Fields Schools, St. Matthias School and Heath Park Academy. In each of these contracts the Council pays an annual unitary charge over the life of the contract which is allocated between the fair value of the services provided by the operator, interest on the lease liability and repayment of the lease liability which increases annually in line with inflation based on the Retail Price Index. These allocations are determined using an accounting model which is derived from the operators' financial close models which includes estimates of the impact of inflation on the unitary charge.

**Bentley Bridge Leisure Centre:** In 2006-2007 the Council signed a thirty-year contract for a new leisure facility. The scheme was for the design, build, funding and operation of a major new regional leisure facility. The facility includes a leisure pool with a river run, wave pool and flumes, a 25 metre 6 lane traditional pool, a studio pool, a 140-station fitness suite, a dance/aerobics suite, children's play feature and a café. The facility cost £13.3 million and opened on 12 December 2006. The facility is operated by Places for People Leisure Ltd on behalf of the Council. The contract period is for 30 years, with an end date of 31 October 2036. The total amount payable by the Council over the life of the contract is £52.5 million. Over the remaining life of the project the commitments are:



| | Payment for Services £m | Interest £m | Capital Expenditure /Principal Redemption £m | Total £m |
|---|---|---|---|---|
| Payable within one year | 0.5 | 1.0 | 0.2 | **1.7** |
| Payable within two to five years | 2.2 | 3.9 | 1.0 | **7.1** |
| Payable within six to ten years | 3.6 | 4.5 | 1.2 | **9.3** |
| Payable within eleven to fifteen years | 3.1 | 4.3 | 2.6 | **10.0** |
| Payable within sixteen to twenty years | 2.1 | 2.5 | 3.2 | **7.8** |
| **Total** | **11.5** | **16.2** | **8.2** | **35.9** |

The following tables below shows the movements on the balances for property, plant and equipment and the long-term liability over the current and previous year:

| | Property, Plant and Equipment £m | Long-Term Liability £m | Total £m |
|---|---|---|---|
| **Balance at 31 March 2017** | **9.9** | **(8.2)** | **1.7** |
| Depreciation | 0.4 | - | **0.4** |
| Capital Expenditure/Principal Redemption | 0.1 | 0.1 | **0.2** |
| **Balance at 31 March 2018** | **10.4** | **(8.1)** | **2.3** |

| | Property, Plant and Equipment £m | Long-Term Liability £m | Total £m |
|---|---|---|---|
| **Balance at 31 March 2016** | **7.4** | **(8.4)** | **(1.0)** |
| Depreciation/Revaluation | 2.4 | - | **2.4** |
| Capital Expenditure/Principal Redemption | 0.1 | 0.2 | **0.3** |
| **Balance at 31 March 2017** | **9.9** | **(8.2)** | **1.7** |



**Waste Disposal Facility:** In 1996 the Council signed a contract for the construction and maintenance of a waste disposal facility. The facility cost £26.6 million. The contract period during which the Council has the right to use the facility is 25 years from the date that the facility became operational (1998). At the end of the contract period the asset will revert to the ownership of the Council, but there is an option to then re-tender, operate or operate with additional investment being targeted at the plant. During the contract, period the Council could terminate the contract if the clauses relating to termination in the contract are triggered. The facility is managed by Wolverhampton Waste Services Limited (WWS). The main income stream for WWS is the 'gate fee' paid by the Council, which is based on the total tonnage of weight delivered to the facility for disposal. In addition to this, WWS generate a significant proportion of their turnover from the sale of electricity generated at the facility. The total amount payable by the Council over the life of the contract is estimated to be £155.6 million. Over the remaining life of the contract the estimated payments are:

| | Payment for Services £m | Interest £m | Capital Expenditure /Principal Redemption £m | Total £m |
|---|---|---|---|---|
| Payable within one year | 5.3 | 2.5 | 1.4 | **9.2** |
| Payable within two to five years | 11.2 | 5.1 | 3.0 | **19.3** |
| **Total** | **16.5** | **7.6** | **4.4** | **28.5** |

The following tables below show the movements on the balances for property, plant and equipment and the long-term liability over the current and previous year:



| | Property, Plant and Equipment £m | Deferred Income £m | Long-Term Liability £m | Total £m |
|---|---|---|---|---|
| **Balance at 31 March 2017** | **2.9** | **(1.4)** | **(5.7)** | **(4.2)** |
| Depreciation and amortisation | 0.1 | 0.4 | - | **0.5** |
| Capital Expenditure/Principal Redemption | - | 0.1 | 1.3 | **1.4** |
| **Balance at 31 March 2018** | **3.0** | **(0.9)** | **(4.4)** | **(2.3)** |

| | Property, Plant and Equipment £m | Deferred Income £m | Long-Term Liability £m | Total £m |
|---|---|---|---|---|
| **Balance at 31 March 2016** | **3.1** | **(1.7)** | **(6.9)** | **(5.5)** |
| Depreciation/Revaluation | (0.2) | 0.3 | - | **0.1** |
| Capital Expenditure/Principal Redemption | - | - | 1.2 | **1.2** |
| **Balance at 31 March 2017** | **2.9** | **(1.4)** | **(5.7)** | **(4.2)** |

**Highfields & Penn Fields School:** As part of the Building Schools for the Future Programme the Council entered into a PFI contract for the construction and management of a new building for the Highfields School and Penn Fields Special School. The construction of the new building cost £46.1 million. The total amount payable by the Council over the life of the contract is estimated to be £192.7 million. Over the remaining life of the contract the estimated payments are:

| | Payment for Services £m | Interest £m | Capital Expenditure /Principal Redemption £m | Total £m |
|---|---|---|---|---|
| Payable within one year | 1.8 | 4.6 | 1.0 | **7.4** |
| Payable within two to five years | 8.6 | 17.2 | 4.5 | **30.3** |
| Payable within six to ten years | 11.7 | 18.9 | 8.7 | **39.3** |
| Payable within eleven to fifteen years | 14.5 | 12.8 | 13.9 | **41.2** |
| Payable within sixteen to twenty years | 15.6 | 4.7 | 17.8 | **38.1** |
| **Total** | **52.2** | **58.2** | **45.9** | **156.3** |



The following tables below shows the movements on the balances for property, plant and equipment and the long-term liability over the current and previous year:

| | Property, Plant and Equipment £m | Long-Term Liability £m | Total £m |
|---|---|---|---|
| **Balance at 31 March 2017** | **11.0** | **(41.9)** | **(30.9)** |
| Depreciation | 0.4 | | **0.4** |
| Capital Expenditure/Principal Redemption | 0.1 | 0.7 | **0.8** |
| **Balance at 31 March 2018** | **11.5** | **(41.2)** | **(29.7)** |

| | Property, Plant and Equipment £m | Long-Term Liability £m | Total £m |
|---|---|---|---|
| **Balance at 31 March 2016** | **15.5** | **(42.3)** | **(26.8)** |
| Depreciation/Revaluation | (4.6) | - | **(4.6)** |
| Capital Expenditure/Principal Redemption | 0.1 | 0.4 | **0.5** |
| **Balance at 31 March 2017** | **11.0** | **(41.9)** | **(30.9)** |

During 2015-2016 Highfields School converted to an academy and entered a 125 year lease with the Council. This lease has been recognised as a finance lease and, accordingly, the Highfields School has been derecognised as an asset of the Council. The remaining carrying asset value relates to Penn Fields Special School which has not converted to an academy. The terms of the PFI contract and level of unitary payment remains unchanged, however, during 2017-2018 the Council received a contribution of £2.1 million from the Academy representing the balance of the unitary payment not funded by capital grants from Central Government.



**St. Matthias School and Heath Park Academy:** As part of the Building Schools for the Future Programme the Council entered into a new PFI contract for the construction and management of new buildings for St. Matthias School and Heath Park Academy. The construction costs of the new buildings were £19.7 million for St. Matthias and £24.3 million for Heath Park Academy. As Heath Park is an academy and has entered a long-term finance lease with the Council the amount capitalised has been derecognised as a disposal. The total amount payable by the Council over the life of the contract is estimated to be £153.5 million. Over the remaining life of the contract the estimated payments are:

| | Payment for Services £m | Interest £m | Capital Expenditure /Principal Redemption £m | Total £m |
|---|---|---|---|---|
| Payable within one year | 1.5 | 2.9 | 1.3 | **5.7** |
| Payable within two to five years | 6.5 | 10.9 | 5.9 | **23.3** |
| Payable within six to ten years | 10.0 | 12.1 | 8.3 | **30.4** |
| Payable within eleven to fifteen years | 11.5 | 10.0 | 10.4 | **31.9** |
| Payable within sixteen to twenty years | 17.5 | 6.8 | 9.4 | **33.7** |
| Payable within twenty-one to twenty-five years | 8.9 | 2.5 | 5.6 | **17.0** |
| **Total** | **55.9** | **45.2** | **40.9** | **142.0** |

The following table below shows the movements on the balances for property, plant and equipment and the long-term liability over the current year:

| | Property, Plant and Equipment | Long-Term Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2017** | **23.6** | (42.2) | **(18.6)** |
| Depreciation | 0.9 | | **0.9** |
| Capital Expenditure/Principal Redemption | | 1.3 | **1.3** |
| **Balance at 31 March 2018** | **24.5** | **(40.9)** | **(16.4)** |

| | Property, Plant and Equipment | Long-Term Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2016** | **19.7** | **(43.3)** | **(23.6)** |
| Depreciation/Revaluation | 3.4 | - | **3.4** |
| Capital Expenditure/Principal Redemption | 0.5 | 1.1 | **1.6** |
| **Balance at 31 March 2017** | **23.6** | **(42.2)** | **(18.6)** |

Heath Park Academy is an existing academy and had previously entered into a 125 year lease with the Council which has been classified as a finance lease and, on commencement of the PFI an amended agreement has been entered. As this is a similar agreement the asset has been derecognised as an asset of the Council and treated as a disposal. The remaining carrying asset value relates to St. Matthias School which has not converted to an academy. The terms of the PFI contract and level of unitary payment remains unchanged, however, during 2017-18 the Council received a contribution of £1.2 million from Heath Park Academy representing the balance of the unitary payment not funded by capital grants from Central Government.

### 10E Financial Liabilities at Amortised Cost

The table below shows the carrying values and fair values of loans held by the Council at the year end.

| 31 March 2017 | | | | | 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Carrying Value | | Fair Value | | | Carrying Value | | Fair Value | |
| Long-Term | Current | Long-Term | Current | | Long-Term | Current | Long-Term | Current |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| (573.2) | (91.6) | (784.9) | (92.2) | Financial Liabilities at Amortised Cost | (680.4) | (2.8) | (680.6) | (3.0) |

**Basis of Fair Value Valuation**

The fair values of the loans have been assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the loan. The assessment of loans uses Level 2 Inputs- inputs other than quoted prices that are observable for the financial instrument.

For PWLB loans fair value has been calculated using new loan rates. The Debt Management Office provides a transparent approach to allow the exit cost of PWLB loans to be calculated.

For non-PWLB loans, PWLB new loan rates have been applied.

### 10F Debt Arising from the West Midlands County Council Reorganisation

The Council recognises debt arising from residual liabilities of the West Midlands County Council. The debt is managed by Dudley Metropolitan Borough Council and will mature by 31 March 2026.

### 10G 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.

| 2016-2017 | | | | | 2017-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Assets: Loans and Receivables £m | Financial Asset: Available for Sale £m | Financial Liabilities Measured at Amortised Cost £m | Total £m | | Financial Assets: Loans and Receivables £m | Financial Asset: Available for Sale £m | Financial Liabilities Measured at Amortised Cost £m | Total £m |
| - | - | 36.0 | **36.0** | Interest Expense | - | - | 32.5 | **32.5** |
| (0.5) | - | - | **(0.5)** | Interest Income | (0.5) | - | - | **(0.5)** |
| - | (4.4) | - | **(4.4)** | Gain or loss on valuation of unquoted equity investment | - | 0.5 | - | **0.5** |
| **(0.5)** | **(4.4)** | **36.0** | **31.1** | **Net (Income)/Expense** | **(0.5)** | **0.5** | **32.5** | **32.5** |



**10H Risks Arising from Financial Instruments**

There are a number of risks associated with the Council's financial instruments, which the Council seeks to actively identify and manage. A key part of this is the preparation of the following documents on an annual basis, in accordance with the CIPFA Treasury Management Code and the Prudential Code:

- Treasury Management Strategy
- Annual Investment Strategy
- Prudential and Treasury Management Indicators

These strategies and indicators set out the Council's approach to the key risks arising from financial instruments and how it will monitor and manage those risks. These are reflected in the following paragraphs.

**Credit and Counterparty Risk Management**

The security of principal sums invested is the Council's top priority when making investment decisions: accordingly, it only places sums with institutions for whom credit risk is assessed as very low. To form this assessment, the Council applies a creditworthiness model supplied by its external treasury advisors Link Asset Services, which takes into account credit watches and credit outlooks from credit rating agencies, credit default swap spreads, and sovereign ratings. The Council also uses market data and market information, information on government support for banks and the credit ratings of the government in question. The Council has combined these factors to develop a range of creditworthiness criteria which it applies strictly when making investment decisions.

The Council's maximum exposure to credit risk at 31 March 2018 was £76.5 million (31 March 2017: £74.2 million). This relates entirely to Loans and Receivables. The Council does not hold any collateral in respect of these amounts.

**Collateral and Other Credit Enhancements Obtained**

The Council did not obtain any collateral or other credit enhancements during 2017-2018 or 2016-2017.

**Liquidity Risk Management**

The Council ensures it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of its business/service objectives. The Council actively manages its cash balances on a daily basis, and forecasts cash requirements several months in advance. In its investment activities, the Council places strong emphasis on liquidity (second only to security, as discussed under credit risk).

**Analysis of External Borrowing Financial Liabilities by Maturity Date**

| 2016-2017 £m | Time until Repayment | 2017-2018 £m |
|---|---|---|
| 87.1 | Payable next year | 6.0 |
| 18.5 | Payable within two to five years | 30.7 |
| 41.8 | Payable within six to ten years | 35.1 |
| 58.9 | Payable within eleven to fifteen years | 65.3 |
| - | Payable within sixteen to twenty years | 61.1 |
| 31.0 | Payable within twenty-one to twenty-five years | 59.9 |
| 44.3 | Payable within twenty-six to thirty years | 45.9 |
| 26.5 | Payable within thirty-one to thirty-five years | 76.2 |
| 112.6 | Payable within thirty-six to forty years | 59.3 |
| 66.6 | Payable within forty-one to forty-five years | 81.6 |
| 166.8 | Payable within forty-six to fifty years | 151.8 |
| - | Payable within fifty-one to sixty years | - |
| **654.1** | **Total** | **672.9** |



**Interest Rate Risk Management**

The Council manages its exposure to fluctuations in interest rates with a view to containing its net interest costs or securing its interest revenues. It achieves this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. These are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

If interest rates had been 1% higher during 2017-2018, the Council's interest payable would have increased by £6.7 million, and its interest receivable would have increased by £241,000, resulting in an increase in net expenditure of £6.5 million. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £6.5 million.

**Inflation Risk Management**

The effects of varying levels of inflation, insofar as they can be identified as impacting directly on the Council's treasury management activities, are controlled as an integral part of the Council's strategy for managing its overall exposure to inflation.

The Council achieves this objective by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. These are subject at all times to the consideration and, if required, approval of any policy or budgetary implications.

**Price Risk**

The Council does not generally invest in equity shares but does have shareholdings to the value of £23.7 million in Birmingham Airport Holdings Ltd. The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings, have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares are all classified as 'unquoted equity investment at cost', meaning that all movements in price will impact on gains and losses recognised in 'Other Comprehensive Income and Expenditure'.



**Refinancing Risk Management**

The Council ensures that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time. It actively manages its relationships with its counterparties in these transactions in such a manner as to secure this objective and avoids over-reliance on any one source of funding if this might jeopardise achievement of the above.

**Legal and Regulatory Risk Management**

The Council ensures that all of its treasury management activities comply with its statutory powers and regulatory requirements. It is able to demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. The Council ensures that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may carry out with the organisations, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, seeks to minimise the risk of these impacting adversely on the organisation.

**Fraud, Error and Corruption Risk, and Contingency Management**

The Council ensures that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it employs suitable systems and procedures, and maintains effective contingency management arrangements to these ends.

**Note 11 Members of the City of Wolverhampton Council Group and other Related Parties**

**Subsidiaries**

The Council has three subsidiary entities: Wolverhampton Homes Limited, Yoo Recruit Limited and WV Living (City of Wolverhampton Housing Company Limited).

Wolverhampton Homes Limited is an arm's length management organisation (ALMO) which was established in 2005 to manage and maintain most of the Council's housing stock. It is wholly owned by the Council. The company's accounts have been wholly consolidated into the group elements of the financial statements.



Wolverhampton Homes Limited's main income stream comes from the Council, in the form of a management fee for housing management and maintenance which amounted to £38.5 million in 2017-2018 (£38.0 million in 2016-2017). There are a number of other transaction streams between the two entities, including capital works carried out by Wolverhampton Homes Limited for the Council, support services provided by the Council, and premises leases payable by Wolverhampton Homes Limited. Payments by the Council to Wolverhampton Homes Limited amounted to £45.0 million in 2017-2018 (2016-2017: £44.1 million), whilst payments by Wolverhampton Homes Limited to the Council totalled £5.6 million (2016-2017: £5.0 million). At the year end, Wolverhampton Homes Limited owed the Council £2.5 million (2016-2017: £2.3 million), and the Council owed Wolverhampton Homes Limited £1.2 million (2015/16: £1.9 million).

Yoo Recruit Limited is a wholly-owned subsidiary which was formed in 2014. The Council does not consider the transactions and balances of this company to be material, so they have not been consolidated into the Group Accounts. Payments by the Council to Yoo Recruit Limited amounted to £8.7 million (2016-2017: £9.9 million) while payments by Yoo Recruit Limited to the Council totalled £183,616 (2016-2017: £410,200).

At 31 March 2017, the amount owing to Yoo Recruit Limited, included in current payables, was £300,000 (2016-2017: £4000,000) while an amount, included in current receivables, of £100,000 (2016-2017: £100,000) was owed to the Council.

WV Living was formed as a wholly-owned subsidiary of the Council in 2017-2018. During 2017-2018 the company has incurred expenditure of £2.4 million, £1.0 million of this being transactions with the Council. As the impact on the group accounts is considered by the Council, to be not material they have not been consolidated in the Group Accounts

**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 wh other parties. The following table provides details of the grants received from Central Government.

| 2016-2018 £m | Grant | 2017-2018 £m |
|---|---|---|
| (14.5) | DSG Early Years Block | (18.1) |
| (23.3) | DSG High Needs Block | (25.1) |
| (85.4) | DSG Schools Block | (74.7) |
| (53.0) | Mandatory Rent Allowance | (51.1) |
| (53.9) | Mandatory Rent Rebates Subsidy | (50.7) |
| (36.2) | Top Up Grant | (42.1) |
| (21.9) | Public Health Grant | (21.3) |
| (9.2) | LA Private Finance Initiative Revenue Schools (PFI) | (9.1) |
| (10.3) | Pupil Premium | (9.0) |
| (7.4) | Schools Basic Needs Grant | (7.6) |
| - | Additional Improved Better Care Fund | (6.4) |
| (2.8) | Business Rates Autumn Statement Compensation | (5.6) |
| (4.1) | New Homes Bonus | (3.7) |
| (3.8) | Section 31 Grant | (3.7) |
| (2.4) | Further Education 19+ | (3.0) |
| (2.4) | Disabled Facilities Grant | (3.0) |
| (2.4) | Civic Halls Improvement - Local Growth Fund | (2.3) |
| - | 6th Form Funding | (2.2) |
| (2.2) | Housing & Council Tax Benefit Administration | (2.1) |
| (1.9) | Universal Infant Free School Meals | (1.8) |
| (1.2) | Troubled Families Grant | (1.7) |
| (1.3) | Bilston Urban Village - Local Growth Fund | (1.6) |

| 2016-2018 £m | Grant | 2017-2018 £m |
|---|---|---|
| - | Adult Social Care Grant | (1.4) |
| (0.8) | Independent Living Fund Grant | (1.3) |
| - | Improved Better Care Fund | (1.2) |
| (0.8) | Discretionary Rent Allowances | (1.1) |
| (2.4) | Education Support Grant | (0.6) |
| (3.1) | 16-18 Bursary Fund | (0.1) |
| (0.6) | Adult Community Learning PCDL | - |
| (50.3) | Revenue Support Grant | - |
| (2.1) | Schools Condition Allocation | (0.2) |
| (4.4) | Access to Growth - Local Growth Fund | (2.7) |
| (9.3) | Interchange - Local Growth Fund | - |
| (7.8) | Other grants (each less than £1.0 million) | (9.2) |
| **(421.2)** | **TOTAL** | **(363.7)** |



*In October 2016, Cabinet approved that the City of Wolverhampton Council, as one of the Constituent Members of the West Midlands Combined Authority, will participate in a business rates retention pilot from April 2017, on a no financial detriment basis. As a result of entering this pilot, the Council will retain 99% of the business rates but no longer receive Revenue Support Grant and instead receive a Top Up Grant adjustment to account for the net effect of the changes.

**Councillors**

Councillors have direct control over the Council's financial and operating policies. The total of Councillors' allowances paid during the year is shown in Note 4D. The register of Councillors' interests is available on the Council's website:

http://www.wolverhampton.gov.uk/article/7495/Local-councillors

**Other Related Parties**

The table below shows total expenditure and income streams of £100,000 or more with other related parties of the Council during the year.

| 2016-2017 Expenditure £m | 2016-2017 Income £m | Entity and Nature of Relationship | 2017-2018 Expenditure £m | 2017-2018 Income £m |
|---|---|---|---|---|
| - | (1.5) | **Birmingham Airport Holdings Limited**<br>The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. In 2016-2017 the Council received a preference dividend of £93,000, ordinary dividends of £1,446,000 and rental income of £89,000. | - | (1.6) |
| 0.2 | (0.4) | **Wolverhampton Grand Theatre**<br>The Grand Theatre is managed by Wolverhampton Grand Theatre (1982) Limited. The Council continues to own the building and can appoint 40% of the members of the company of which 2 can be directors.<br>The Council provides grant funding to support the net cost of operating the theatre. | - | - |
| 0.8 | (0.1) | **ConnectEd Partnership Ltd**<br>ConnectEd Partnership Ltd (previously known as Wolverhampton Schools' Improvement Partnership) is a company limited by guarantee established to advance educational opportunities and outcomes for children and young people in Wolverhampton.<br>The board of directors comprises of representatives from each school cluster and phase and the senior substantive Council officer for schools. | 0.7 | (0.1) |
| 0.4 | (1.8) | **i54**<br>The Council is party to a joint arrangement with Staffordshire County Council for the development of i54 at Wobaston Road, Wolverhampton. | - | (1.4) |
| 14.9 | (0.2) | **Inspired Spaces Wolverhampton Limited**<br>The Council is a 10% shareholder in this company as well as a 10% shareholder in each of the operating companies (Inspired Spaces Wolverhampton (Project Co 1) Limited and Inspired Spaces Wolverhampton (Project Co 2) Limited set up for the administration of the 2 schools (Highfields and Penn Fields Schools and St. Matthias and Heath Park Academy). These companies were set up as part of the LEP for the building of the new schools. The board of all 3 companies have representatives of the Council. | 14.1 | (2.1) |
| | | **Entities in which Members/Senior Officers Have Declared an Interest and other Government Bodies** | | |
| 0.3 | - | African Caribbean Community Initiative | 0.3 | - |
| - | - | Amethyst Academies Trust | 0.7 | (0.4) |
| 0.2 | - | Base 25 | 0.2 | - |
| 0.1 | - | Bilston Business Improvement District Ltd | 0.2 | - |

| 2016-2017 Expenditure £m | 2016-2017 Income £m | Entity and Nature of Relationship | 2017-2018 Expenditure £m | 2017-2018 Income £m |
|---|---|---|---|---|
| - | - | Birmingham City Council | 0.1 | (0.1) |
| 0.4 | (0.1) | Black Country Consortium Limited | 0.4 | (0.1) |
| 0.5 | - | Black Country Partnership NHS Foundation Trust | 0.5 | - |
| 0.2 | - | Bristol City Council | - | - |
| 0.1 | - | Bury Metropolitan Borough Council | - | - |
| 0.1 | - | Buckinghamshire County Council | - | - |
| 1.3 | - | Bushbury Hill EMB | 1.3 | - |
| 0.8 | - | Canal & River Trust | 0.4 | - |
| 0.1 | (1.0) | Central Learning Partnership Trust | 0.2 | (0.4) |
| 1.0 | (0.1) | City of Wolverhampton College | 0.7 | (0.1) |
| 0.4 | - | Department of Energy & Climate Change | 0.4 | - |
| 1.1 | - | Dovecotes TMO | 1.1 | - |
| - | - | Dudley & Walsall Mental Health Partnership Trust | 0.1 | - |
| 1.4 | (0.9) | Dudley Metropolitan Borough Council | 1.1 | (1.3) |
| 0.1 | - | Edge Hill University | - | - |
| - | - | Edward the Elder Primary School Academy | 0.2 | (0.1) |
| 0.1 | - | Environment Agency | 0.1 | - |
| - | (0.2) | FBC Manby Bowdler LLP | 0.4 | - |
| 0.1 | - | Gazebo Theatre in Education Company Ltd | 0.1 | - |
| - | - | Goldthorn Park Primary School | - | (0.1) |
| 0.1 | - | Heath Town Senior Citizens Welfare Project | - | - |
| - | - | Hilton Main Construction Limited | 1.0 | - |
| 0.1 | - | Kingswood Trust | 0.1 | - |
| - | - | Lichfield Diocesan | 0.1 | - |
| 0.1 | - | Local Government Information Unit | - | - |
| - | - | London Borough of Barking & Dagenham | 0.2 | |
| - | - | Mencap | 0.2 | - |
| 0.1 | - | Milton Keynes Council | - | - |
| - | - | New Outlook Housing Association Limited | 0.1 | - |
| 0.4 | - | New Park Village TMC | 0.4 | - |
| - | - | NHS Dudley CCG | - | (0.1) |

| 2016-2017 Expenditure £m | 2016-2017 Income £m | Entity and Nature of Relationship | 2017-2018 Expenditure £m | 2017-2018 Income £m |
|---|---|---|---|---|
| - | - | NHS Property Services Ltd | - | (0.1) |
| - | - | NHS Stafford and Surrounds CCG | - | (0.2) |
| 34.4 | (47.3) | NHS Wolverhampton CCG | 39.1 | (50.5) |
| 0.1 | (0.1) | North East Wolverhampton Academy | - | - |
| - | - | Northern House Academy | 1.7 | (0.2) |
| 0.2 | - | Public Health England | 0.1 | - |
| 0.1 | - | Pump Services | - | - |
| - | - | Re-Entry Project | 0.3 | - |
| 10.8 | (0.7) | Royal Wolverhampton Hospitals NHS Trust | 9.9 | (0.6) |
| 0.9 | (0.1) | Sandwell Metropolitan Borough Council | 0.3 | (0.1) |
| 0.3 | - | Shropshire County Council | 0.3 | - |
| - | - | Smestow Academy | - | (0.2) |
| 0.1 | (0.1) | Solihull Metropolitan Borough Council | - | (0.2) |
| 0.1 | - | Southend-On-Sea Borough Council | - | - |
| - | (0.2) | South Wolverhampton & Bilston Academy | - | - |
| 0.4 | - | Springfield Horseshoe Co-op/Burton Rd. | 0.4 | - |
| - | - | St Barts CE Multi Acad (Woodfield Inf, Woodfield Jnr & St Barts CE Primary) | 0.2 | (0.2) |
| 0.3 | (0.1) | St Martins Multi Academy Trust | - | - |
| 0.6 | (0.2) | Staffordshire County Council | 0.6 | (0.1) |
| - | (0.1) | Telford & Wrekin Council | 0.1 | - |
| - | - | Tettenhall College | 0.2 | - |
| 0.1 | - | The Dudley Group of Hospitals NHS Foundation Trust | 0.1 | - |
| 0.1 | - | The Royal Wolverhampton School | 0.2 | - |
| - | - | The Way Youth Zone | 0.2 | - |
| 0.1 | - | University Hospitals Birmingham NHS Trust | 0.1 | - |
| 0.1 | (0.1) | University of Birmingham | 0.1 | (0.1) |
| 0.3 | (0.1) | University of Wolverhampton | 0.5 | (0.1) |
| 0.1 | - | Walsall Healthcare NHS Trust | 0.1 | - |
| 0.3 | (0.8) | Walsall Metropolitan Borough Council | 0.2 | (0.9) |
| 0.6 | (0.3) | West Midlands Combined Authority | 0.8 | (0.4) |
| 3.5 | - | West Midlands Fire Service | 3.7 | - |

| 2016-2017 Expenditure £m | 2016-2017 Income £m | Entity and Nature of Relationship | 2017-2018 Expenditure £m | 2017-2018 Income £m |
|---|---|---|---|---|
| 11.2 | - | West Midlands Integrated Transport Authority | 10.9 | - |
| 5.4 | (0.6) | West Midlands Pension Fund | 5.1 | (0.5) |
| 6.8 | (0.1) | West Midlands Police Authority | 7.2 | - |
| - | - | West Midlands Travel Limited | 0.1 | - |
| 0.6 | (0.1) | Wolverhampton Bid Company Ltd | 0.4 | - |
| - | - | Wolverhampton Citizen's Advice | 0.3 | - |
| - | (0.1) | Wolverhampton Girls' High School (Academy) | - | (0.1) |
| 0.2 | - | Worcestershire County Council | 0.1 | - |
| **103.1** | **(57.4)** | **Total** | **108.7** | **(62.4)** |

**Note 12 Trust Funds**



The City of Wolverhampton Council acts as a trustee for a number of trust funds. The funds are not assets of the Council and therefore they have not been included in the Council's balance sheet. The table below provides an overview of the funds and their finances over the last two years.

| 2016-2017 Income £000 | 2016-2017 Expenditure £000 | 2016-2017 Fund Value at 31 March 2017 £000 | Fund Name and Purpose | 2017-2018 Income £000 | 2017-2018 Expenditure £000 | 2017-2018 Fund Value at 31 March 2018 £000 |
|---|---|---|---|---|---|---|
| - | - | 43 | **Springfield Reading Room**<br>In its capacity as trustee, the Council is authorised to apply income in various ways. | - | - | 43 |
| - | - | 29 | **Greenway Benefaction**<br>Established for the convalescence, enjoyment, pleasure and amusement of poor children of Bradley. | - | - | 29 |
| - | - | 17 | **Butler Bequest Music in the Parks**<br>To provide music in the parks. | - | - | 17 |
| 16 | 16 | 13 | **Mayoral Charities** | 39 | 20 | 32 |

| 2016-2017 Income £000 | 2016-2017 Expenditure £000 | 2016-2017 Fund Value at 31 March 2017 £000 | Fund Name and Purpose | 2017-2018 Income £000 | 2017-2018 Expenditure £000 | 2017-2018 Fund Value at 31 March 2018 £000 |
|---|---|---|---|---|---|---|
| | | | Funds raised by the Mayor for their chosen local charities | | | |
| - | - | 12 | **Monica Lloyd**<br>To provide assistance with further education. | 1 | - | 13 |
| - | - | 26 | Other smaller funds | - | - | 26 |
| **16** | **16** | **140** | **Total** | **40** | **20** | **160** |

**Note 13 Reconciliation of the Financial Statements to the Statutory Accounts**



**13A Detailed Analysis of Movement in Reserves Statement:**

**2017-2018 Part 1 – Usable Reserves and Reserves of Subsidiary**

| | General Fund Balance £m | General Fund Earmarked Reserves £m | HRA Balance £m | Major Repairs Reserve £m | Usable Capital Receipts Reserve £m | Capital Grants Unapplied Account £m | *Reserves of Subsidiary £m* | Total Usable Reserves £m |
|---|---|---|---|---|---|---|---|---|
| **Balance Brought Forward** | **(9.9)** | **(61.3)** | **(5.1)** | **(0.1)** | **(6.8)** | **(2.9)** | **24.3** | **(61.8)** |
| -As previously reported | (0.1) | | | | | 0.1 | | |
| **-As restated** | **(10.0)** | **(61.3)** | **(5.1)** | **(0.1)** | **(6.8)** | **(2.8)** | **24.3** | **(61.8)** |
| | | | | | | | | |
| **Surplus or Deficit on Provision of Services** | **39.0** | **-** | **43.6** | **-** | **-** | **-** | **4.4** | **87.0** |
| | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | |
| Revaluations - Gains and losses | - | - | - | - | - | - | - | - |
| Gains on Available-for-Sale Financial Assets | - | - | - | - | - | - | - | - |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | - | - | - |
| Re-measurements in the pensions reserve | - | - | - | - | - | - | (1.7) | (1.7) |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | - | - | - |
| **Total Comprehensive Income and Expenditure** | **39.0** | **-** | **43.6** | **-** | **-** | **-** | **2.7** | **85.3** |
| | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | |

| | General Fund Balance | General Fund Earmarked Reserves | HRA Balance | Major Repairs Reserve | Usable Capital Receipts Reserve | Capital Grants Unapplied Account | *Reserves of Subsidiary* | Total Usable Reserves |
|---|---|---|---|---|---|---|---|---|
| Depreciation, amortisation, impairment and revaluation of non-current assets | **(30.1)** | - | 0.3 | (17.3) | - | - | - | (47.1 |
| Difference between HRA depreciation and Major Repairs Allowance | **-** | - | - | - | - | - | - | - |
| HRA Share of Contribution to Pension Reserve | **-** | - | - | - | - | - | - | - |
| Movement in the market value of Investment Properties | **(4.4)** | - | (71.2) | - | - | - | - | (75.6) |
| Revenue Expenditure Funded from Capital under Statute | **(14.3)** | - | - | - | - | - | - | (14.3) |
| Net Gain/Loss on sale of non-current assets (net book value of assets) | **(17.9)** | - | (8.2) | - | - | - | - | (26.1) |
| Net Gain/Loss on sale of non-current assets (disposal proceeds) | **3.2** | - | 12.5 | - | (15.7) | - | - | - |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | **(0.2)** | - | (0.1) | - | - | - | - | (0.3) |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | **8.9** | - | - | - | - | - | - | 8.9 |
| Net Charges made for retirement benefits in accordance with IAS 19 | **(52.4)** | - | - | - | - | - | - | (52.4) |
| Capital Expenditure charged in the year to the General Fund | **0.6** | - | - | - | - | - | - | 0.6 |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | **(2.1)** | - | - | - | 2.1 | - | - | - |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | **43.7** | - | - | - | - | - | - | 43.7 |
| Transfers of HRA Balance | **-** | - | - | - | - | - | - | - |
| Capital grants and contributions unapplied credited to CIES | **0.6** | - | - | - | - | (0.6) | - | - |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | **28.9** | - | - | - | - | - | - | 28.9 |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **(0.4)** | - | - | - | - | - | - | (0.4) |
| Capital Expenditure Financed from Usable Capital Receipts | **-** | - | - | - | 16.3 | - | - | 16.3 |
| Other income that cannot be credited to the General Fund | **0.3** | - | - | - | - | - | - | 0.3 |
| Revenue provision for the repayment of debt | **4.7** | - | 21.6 | - | - | - | - | 26.3 |
| Transfer of HRA Settlement Receipts to UCR | | | | | | | | |
| Use of Major Repairs Allowance to Finance Capital Spend | **-** | - | - | 17.0 | - | - | - | 17.0 |
| Capitalisation under Section 16(2)(b) directive | **(3.0)** | - | - | - | - | - | - | (3.0) |
| Loan receipts transferred to Capital Adjustment Account | **-** | - | - | - | (0.1) | - | - | (0.1) |
| Adjustments between Accounting Basis & Funding Basis under Regulations | **(33.9)** | | (45.1) | (0.2) | 2.6 | (0.6) | - | (77.3) |
| | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **(5.1)** | **-** | **(1.5)** | **(0.3)** | **2.6** | **(0.6)** | **2.7** | **8.0** |
| | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | | | | | | | | |
| Transfers to/from other Earmarked Reserves | (5.1) | 5.5 | (0.4) | - | - | - | - | - |
| | | | | | | | | |
| **Balance Carried Forward** | **(10.0)** | **(55.8)** | **(7.0)** | **(0.4)** | **(4.2)** | **(3.4)** | **27.0** | **(53.8)** |

## 2017-2018 Part 2 – Unusable Reserves

| | Short-term Accumulating Compensated Absences Account | Available-for-sale Financial Instruments Reserve | Capital Adjustment Account | Collection Fund Adjustment Account | Financial Instruments Adjustment Account | Pensions Reserve | Revaluation Reserve | Total Unusable Reserves | TOTAL (Council) | *TOTAL (Group)* |
|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | *£m* |
| **Balance Brought Forward** | **3.2** | **(17.7)** | **(397.2)** | **6.5** | **5.0** | **662.1** | **(157.0)** | **104.9** | **18.9** | **43.2** |
| -As previously reported | 0.1 | | | | | 0.2 | (0.1) | 0.1 | | |
| **-As restated** | **3.3** | **(17.7)** | **(397.2)** | **6.5** | **5.0** | **662.3** | **(157.1)** | **105.0** | **18.9** | ***43.2*** |
| | | | | | | | | | | |
| **Surplus or Deficit on Provision of Services** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **82.6** | ***87.0*** |
| | | | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | | | |
| Revaluations - Gains and losses | - | - | - | - | - | - | (27.9) | (27.9) | (27.9) | *(27.9)* |
| Gains on Available-for-Sale Financial Assets | - | 0.5 | - | - | - | - | - | 0.5 | 0.5 | *0.5* |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | - | - | - | - | - |
| Re-measurements in the pensions reserve | - | - | - | - | - | (30.3) | - | (30.3) | (30.3) | *(32.0)* |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | - | - | - | - | - |
| **Total Comprehensive Income and Expenditure** | **-** | **0.5** | **-** | **-** | **-** | **(30.3)** | **(27.9)** | **(57.7)** | **24.9** | ***27.6*** |
| | | | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | - | - | 44.0 | - | - | - | 3.1 | 47.1 | 0 | *0* |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | - | - | - | - | - | - | - | - |
| HRA Share of Contribution to Pension Reserve | - | - | - | - | - | - | - | - | - | - |
| Movement in the market value of Investment Properties | - | - | 75.6 | - | - | - | - | 75.6 | - | - |
| Revenue Expenditure Funded from Capital under Statute | - | - | 14.3 | - | - | - | - | 14.3 | - | - |
| Net Gain/Loss on sale of non-current assets (net book value of assets) | - | - | 21.2 | - | - | - | 4.9 | 26.1 | - | - |
| Net Gain/Loss on sale of non-current assets (disposal proceeds) | - | - | - | - | - | - | - | - | - | - |

| | Short-term Accumulating Compensated Absences Account £m | Available-for-sale Financial Instruments Reserve £m | Capital Adjustment Account £m | Collection Fund Adjustment Account £m | Financial Instruments Adjustment Account £m | Pensions Reserve £m | Revaluation Reserve £m | Total Unusable Reserves £m | TOTAL (Council) £m | *TOTAL (Group) £m* |
|---|---|---|---|---|---|---|---|---|---|---|
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | - | - | - | - | 0.3 | - | - | 0.3 | - | - |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | - | - | - | (8.9) | - | - | - | (8.9) | - | - |
| Net Charges made for retirement benefits in accordance with IAS 19 | - | - | - | - | - | 52.4 | - | 52.4 | - | - |
| Capital Expenditure charged in the year to the General Fund | - | - | (0.6) | - | - | - | - | (0.6) | - | - |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | - | - | - | - | - | - | - | - | - | - |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | - | - | - | - | - | (43.7) | - | (43.7) | - | - |
| Transfers of HRA Balance | - | - | - | - | - | - | - | - | - | - |
| Reversal of financing of unequal pay back provision | - | - | - | - | - | - | - | - | - | - |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | (28.9) | - | - | - | - | (28.9) | - | - |
| Capital grants and contributions unapplied credited to CIES | | | | | | | | | | |
| Movement in the Donated Assets Account | | | | | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 0.3 | - | - | - | - | - | - | 0.3 | - | - |
| Capital Expenditure Financed from Usable Capital Receipts | - | - | (16.3) | | | | | (16.3) | | |
| Other income that cannot be credited to the General Fund | - | - | (0.3) | | | | | (0.3) | | |
| Revenue provision for the repayment of debt | - | - | (26.3) | | | | | (26.3) | | |
| Transfer of HRA Settlement Receipts to UCR | - | - | - | - | - | - | - | - | - | - |
| Use of Major Repairs Allowance to Finance Capital Spend | | | (17.0) | | | | | (17.0) | - | - |
| Capitalisation under Section 16(2)(b) directive | | | 3.0 | | | | | 3.0 | | |
| Loan receipts transferred to Capital Adjustment Account | | | 0.1 | | | | | 0.1 | | |
| Adjustments between Accounting Basis & Funding Basis under Regulations | 0.3 | | 68.8 | (8.9) | 0.3 | 8.7 | 8.0 | 77.2 | - | - |
| | | | | | | | | | | |

| | Short-term Accumulating Compensated Absences Account £m | Available-for-sale Financial Instruments Reserve £m | Capital Adjustment Account £m | Collection Fund Adjustment Account £m | Financial Instruments Adjustment Account £m | Pensions Reserve £m | Revaluation Reserve £m | Total Unusable Reserves £m | TOTAL (Council) £m | *TOTAL (Group) £m* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Increase/Decrease before Transfers & Other Movements** | **0.3** | **0.5** | **68.8** | **(8.9)** | **0.3** | **(21.6)** | **(19.9)** | **19.6** | **24.9** | **27.6** |
| | | | | | | | | | | |
| Transfers to/from other Earmarked Reserves | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | |
| Balance Carried Forward | 3.6 | (17.2) | (328.4) | (2.4) | 5.3 | 640.7 | (177.0) | 124.6 | 43.8 | 70.8 |

## 2016-2017 Part 1 – Usable Reserves and Reserves of Subsidiary

| | General Fund Balance £m | General Fund Earmarked Reserves £m | HRA Balance £m | Major Repairs Reserve £m | Usable Capital Receipts Reserve £m | Capital Grants Unapplied Account £m | *Reserves of Subsidiary £m* | Total Usable Reserves £m |
|---|---|---|---|---|---|---|---|---|
| **Balance Brought Forward** | | | | | | | | |
| -As previously reported | (10.0) | (70.1) | (5.0) | (0.1) | (7.4) | (2.0) | 19.9 | (74.7) |
| -Prior year adjustment (Refer to Note 1) | - | (2.9) | - | - | - | - | - | *(2.9)* |
| **-As restated** | **(10.0)** | **(73.0)** | **(5.0)** | **(0.1)** | **(7.4)** | **(2.0)** | **19.9** | **(77.6)** |
| | | | | | | | | |
| **Surplus or Deficit on Provision of Services** | **81.7** | **-** | **(108.4)** | **-** | **-** | **-** | **(0.4)** | **(27.1)** |
| | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | **-** |
| Revaluations - Gains and losses | - | - | 1.0 | - | - | - | - | 1.0 |
| Gains on Available-for-Sale Financial Assets | - | - | - | - | - | - | - | - |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | - | - | - |
| Re-measurements in the pensions reserve | - | - | - | - | - | - | 4.8 | 4.8 |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | - | - | - |
| **Total Comprehensive Income and Expenditure** | **81.7** | **-** | **(107.4)** | **-** | **-** | **-** | **4.4** | **(21.3)** |
| | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | **(47.7)** | - | (0.1) | (22.1) | - | - | - | (69.9) |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | - | - | - | - | - | - |
| HRA Share of Contribution to Pension Reserve | - | - | - | - | - | - | - | - |
| Movement in the market value of Investment Properties | **(0.9)** | - | 84.1 | - | - | - | - | 83.2 |
| Revenue Expenditure Funded from Capital under Statute | **(19.5)** | - | - | - | - | - | - | (19.5) |
| Net Gain/Loss on sale of non-current assets (net book value of assets) | **(37.7)** | - | (7.4) | - | - | - | - | (45.1) |

| | General Fund Balance | General Fund Earmarked Reserves | HRA Balance | Major Repairs Reserve | Usable Capital Receipts Reserve | Capital Grants Unapplied Account | *Reserves of Subsidiary* | Total Usable Reserves |
|---|---|---|---|---|---|---|---|---|
| Net Gain/Loss on sale of non-current assets (disposal proceeds) | **2.1** | - | 11.6 | - | (13.7) | - | - | - |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | **(0.3)** | - | (0.3) | - | - | - | - | (0.6) |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | **(2.1)** | - | - | - | - | - | - | (2.1) |
| Net Charges made for retirement benefits in accordance with IAS 19 | **(38.1)** | - | - | - | - | - | - | (38.1) |
| Capital Expenditure charged in the year to the General Fund | **1.7** | - | - | - | - | - | - | 1.7 |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | **(2.1)** | - | - | - | 2.1 | - | - | - |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | **32.9** | - | - | - | - | - | - | 32.9 |
| Transfers of HRA Balance | **-** | - | - | - | - | - | - | - |
| Reversal of financing of unequal pay back provision | **-** | - | - | - | - | - | - | - |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | **36.0** | - | - | - | - | - | - | 36.0 |
| Capital grants and contributions unapplied credited to CIES | **0.9** | - | - | - | - | (0.9) | - | - |
| Movement in the Donated Assets Account | **-** | - | - | - | - | - | - | - |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **0.1** | - | - | - | - | - | - | 0.1 |
| Capital Expenditure Financed from Usable Capital Receipts | **-** | - | - | - | 12.5 | - | - | 12.5 |
| Other income that cannot be credited to the General Fund | **0.3** | - | - | - | - | - | - | 0.3 |
| Revenue provision for the repayment of debt | **4.2** | - | 19.3 | - | - | - | - | 23.5 |
| Transfer of HRA Settlement Receipts to UCR | **-** | - | - | - | - | - | - | - |
| Use of Major Repairs Allowance to Finance Capital Spend | **-** | - | - | 22.1 | - | - | - | 22.1 |
| Use of Major Repairs Allowance to Finance Capital Spend | **0.4** | - | - | - | - | - | - | 0.4 |
| Use of Major Repairs Allowance to Finance Capital Spend | **-** | - | - | - | (0.3) | - | - | (0.3) |
| | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **11.9** | **-** | **(0.2)** | **-** | **0.6** | **(0.9)** | **4.4** | **15.8** |
| | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | | | | | | | | |
| Transfers to/from other Earmarked Reserves | (11.8) | 11.7 | 0.1 | - | - | - | - | - |
| | | | | | | | | |
| **Balance Carried Forward** | **(9.9)** | **(61.3)** | **(5.1)** | **(0.1)** | **(6.8)** | **(2.9)** | **24.3** | **(61.8)** |

## 2016-2017 Part 2 – Unusable Reserves

| | Short-term Accumulating Compensated Absences Account £m | Available-for-sale Financial Instruments Reserve £m | Capital Adjustment Account £m | Collection Fund Adjustment Account £m | Financial Instruments Adjustment Account £m | Pensions Reserve £m | Revaluation Reserve £m | Unusable Reserves £m | TOTAL (Council) £m | *TOTAL (Group) £m* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance Brought Forward** | | | | | | | | | | |
| -As previously reported | 3.3 | (13.3) | (338.8) | 5.2 | 4.5 | 534.8 | (181.8) | 13.9 | (80.7) | *(60.8)* |
| -Prior year adjustment (Refer to Note 1) | - | - | 1.4 | (0.8) | - | - | - | 0.6 | (2.3) | *(2.3)* |
| **-As restated** | **3.3** | **(13.3)** | **(337.4)** | **4.4** | **4.5** | **534.8** | **(181.8)** | **14.5** | **(83.0)** | ***(63.1)*** |
| | | | | | | | | | | |
| **Surplus or Deficit on Provision of Services** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(26.7)** | ***(27.1)*** |
| | | | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | | | |
| Revaluations - Gains and losses | - | - | - | - | - | - | 9.9 | 9.9 | 10.9 | *10.9* |
| Gains on Available-for-Sale Financial Assets | - | (4.4) | - | - | - | - | - | (4.4) | (4.4) | *(4.4)* |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | - | - | - | - | - |
| Re-measurements in the pensions reserve | - | - | - | - | - | 122.1 | - | 122.1 | 122.1 | *126.9* |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | - | - | - | - | - |
| **Total Comprehensive Income and Expenditure** | **-** | **(4.4)** | **-** | **-** | **-** | **122.1** | **9.9** | **127.6** | **101.9** | **106.3** |
| | | | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | - | - | 62.4 | - | - | - | 7.5 | 69.9 | - | - |

| | Short-term Accumulating Compensated Absences Account £m | Available-for-sale Financial Instruments Reserve £m | Capital Adjustment Account £m | Collection Fund Adjustment Account £m | Financial Instruments Adjustment Account £m | Pensions Reserve £m | Revaluation Reserve £m | Unusable Reserves £m | TOTAL (Council) £m | *TOTAL (Group) £m* |
|---|---|---|---|---|---|---|---|---|---|---|
| Difference between HRA depreciation and Major Repairs Allowance | - | - | - | - | - | - | - | - | - | - |
| HRA Share of Contribution to Pension Reserve | - | - | - | - | - | - | - | - | - | - |
| Movement in the market value of Investment Properties | - | - | (83.3) | - | - | - | - | (83.3) | - | - |
| Revenue Expenditure Funded from Capital under Statute | - | - | 19.5 | - | - | - | - | 19.5 | - | - |
| Net Gain/Loss on sale of non-current assets (net book value of assets) | - | - | 37.7 | - | - | - | 7.4 | 45.1 | - | - |
| Net Gain/Loss on sale of non-current assets (disposal proceeds) | - | - | - | - | - | - | - | - | - | - |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | - | - | 0.1 | - | 0.5 | - | - | 0.6 | - | - |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | - | - | - | 2.1 | - | - | - | 2.1 | - | - |
| Net Charges made for retirement benefits in accordance with IAS 19 | - | - | - | - | - | 38.1 | - | 38.1 | - | - |
| Capital Expenditure charged in the year to the General Fund | - | - | (1.7) | - | - | - | - | (1.7) | - | - |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | - | - | - | - | - | - | - | - | - | - |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | - | - | - | - | - | (32.9) | - | (32.9) | - | - |
| Transfers of HRA Balance | - | - | - | - | - | - | - | - | - | - |
| Reversal of financing of unequal pay back provision | - | - | - | - | - | - | - | - | - | - |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | (36.0) | - | - | - | - | (36.0) | - | - |
| Capital grants and contributions unapplied credited to CIES | - | - | - | - | - | - | - | - | - | - |
| Movement in the Donated Assets Account | - | - | - | - | - | - | - | - | - | - |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (0.1) | - | - | - | - | - | - | (0.1) | - | - |

| | Short-term Accumulating Compensated Absences Account £m | Available-for-sale Financial Instruments Reserve £m | Capital Adjustment Account £m | Collection Fund Adjustment Account £m | Financial Instruments Adjustment Account £m | Pensions Reserve £m | Revaluation Reserve £m | Unusable Reserves £m | TOTAL (Council) £m | *TOTAL (Group) £m* |
|---|---|---|---|---|---|---|---|---|---|---|
| Capital Expenditure Financed from Usable Capital Receipts | - | - | (12.5) | - | - | - | - | (12.5) | - | - |
| Other income that cannot be credited to the General Fund | - | - | (0.3) | - | - | - | - | (0.3) | - | - |
| Revenue provision for the repayment of debt | - | - | (23.5) | - | - | - | - | (23.5) | - | - |
| Transfer of HRA Settlement Receipts to UCR | - | - | - | - | - | - | - | - | - | - |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | (22.1) | - | - | - | - | (22.1) | - | - |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | (0.4) | - | - | - | - | (0.4) | - | - |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | 0.3 | - | - | - | - | 0.3 | - | - |
| | | | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **(0.1)** | **(4.4)** | **(59.8)** | **2.1** | **0.5** | **127.3** | **24.8** | **90.4** | **101.9** | **106.3** |
| | | | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | | | | | | | | | | |
| Transfers to/from other Earmarked Reserves | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | | | | |
| **Balance Carried Forward** | **3.2** | **(17.7)** | **(397.2)** | **6.5** | **5.0** | **662.1** | **(157.0)** | **104.9** | **18.9** | **43.2** |

### 13B Description of Reserves

| | |
|---|---|
| **Usable Reserves** | |
| **Revenue** | |
| General Fund Balance | The General Fund is the statutory fund into which all the receipts of the Council are required to be paid, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year (however, the balance is not available to be applied to funding HRA services: see Housing Revenue Account Balance below). |
| 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. |
| General Fund Earmarked Reserves | General Fund Earmarked Reserves represent amounts that the Council has chosen to set aside to fund specific items of expenditure in the future. The most significant earmarked reserves are the Efficiency Reserve (£6.8 million), the Budget Contingency Reserve (£5.6 million), the Job Evaluation Reserve (£2.1 million) and the Budget Strategy Reserve (£12.6 million). |
| | |
| **Capital** | |
| Major Repairs Reserve | The Council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has 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 Account | The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but |

| | |
|---|---|
| | which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place. |
| **Unusable Reserves** | |
| Revaluation Reserve | The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. 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 only contains 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. |
| Available-for-Sale Financial Instruments Reserve | The Available-for-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised. |
| 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 and losses on Investment Properties. It 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. |
| 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. |
| 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. |
| Collection Fund Adjustment Account | The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. |
| Short-term Accumulating Compensated Absences Account | The Short-term Accumulating Compensated 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, for example annual leave entitlement not yet used at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. |

**13C Movement in Specific Earmarked Reserves**

The table below analyses the Council's earmarked reserves, in the format reported to the Cabinet



| 2016-2017 | | | | | 2017-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| 31 March 2016 £m | Transfers Out £m | Transfers In £m | 31 March 2017 £m | Reserve | 31 March 2017 £m | Transfers Out £m | Transfers In £m | 31 March 2018 £m |
| | | | | | | | | |
| | | | | **Specific Earmarked Reserves** | | | | |
| (7.8) | 1.7 | (0.7) | (6.8) | Efficiency Reserve (Corporate) | (6.8) | 1.4 | (0.7) | (6.1) |
| (11.0) | 5.4 | - | (5.6) | Budget Contingency Reserve (Corporate) | (5.6) | 4.1 | (1.9) | (3.4) |
| (2.5) | 0.4 | - | (2.1) | Job Evaluation Reserve (Corporate) | (2.1) | 0.4 | - | (1.7) |
| (12.6) | - | - | (12.6) | Budget Strategy Reserve (Corporate) | (12.6) | 3.5 | (0.5) | (9.6) |
| | | | | **Other Earmarked Reserves** | | | | |
| (2.3) | 1.1 | (0.7) | (1.9) | People | (1.9) | 1.6 | (1.7) | (2.0) |
| (5.1) | 1.4 | (1.5) | (5.2) | Place | (5.2) | 2.4 | (0.7) | (3.5) |
| (2.8) | 0.5 | (0.3) | (2.6) | Corporate Services (incl. Education) | (2.6) | 0.3 | (1.0) | (3.3) |
| (17.8) | 3.7 | (3.7) | (17.8) | Corporate Budgets | (17.8) | 3.7 | (6.9) | (21.0) |

| 2016-2017 | | | | | 2017-2018 | | | |
|---|---|---|---|---|---|---|---|---|
| 31 March 2016 £m | Transfers Out £m | Transfers In £m | 31 March 2017 £m | Reserve | 31 March 2017 £m | Transfers Out £m | Transfers In £m | 31 March 2018 £m |
| (11.1) | 10.8 | (6.4) | (6.7) | Schools | (6.7) | 5.2 | (3.6) | (5.1) |
| **(73.0)** | **25.0** | **(13.3)** | **(61.3)** | **Total Earmarked Reserves** | **(61.3)** | **22.6** | **(17.0)** | **(55.7)** |

**Note 14 Notes to the Cash Flow Statement**

**14A Adjustment for Non-Cash Movements**

| 2016-2017 | | | 2017-2018 | |
|---|---|---|---|---|
| Council £m | *Group £m* | | Council £m | *Group £m* |
| - | - | Increase in Inventories | (0.1) | *(0.1)* |
| (9.8) | *(10.0)* | Decrease/(Increase) in Current Receivables | 2.5 | *5.6* |
| (0.2) | *(0.9)* | (Decrease)/Increase in Current Payables | 4.2 | *2.1* |
| (56.7) | *(56.7)* | Depreciation, amortisation and impairment of non-current assets | (45.7) | *(45.7)* |
| 74.1 | *74.1* | Revaluations of non-current assets | (77.1) | *(77.1)* |
| (45.4) | *(45.4)* | Net book value on disposal of property, plant and equipment, investment property and intangible assets | (26.1) | *(26.1)* |
| (38.1) | *(38.6)* | Net Charges made for retirement benefits in accordance with IAS 19 | (52.4) | *(55.1)* |
| 32.9 | *32.9* | Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | 43.7 | *43.7* |
| 6.6 | *6.6* | Net Movement in Provisions | (3.4) | *(3.4)* |
| - | - | Non-current borrowing revaluation amounts | (0.2) | *(0.2)* |
| **(36.6)** | ***(38.0)*** | | **(154.6)** | ***(156.3)*** |

### 14B Adjustment for Items that are Investing and Financing Activities

| 2016-2017 | | | 2017-2018 | |
|---|---|---|---|---|
| Council £m | *Group £m* | | Council £m | *Group £m* |
| 13.9 | *13.9* | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 15.8 | *15.8* |
| **13.9** | ***13.9*** | | **15.8** | ***15.8*** |

### 14C Net Cash Flows from Operating Activities

The cash flows from operating activities include the following items:

| 2016-2017 (As Restated) | | | 2017-2018 | |
|---|---|---|---|---|
| Council £m | *Group £m* | | Council £m | *Group £m* |
| 36.0 | *36.0* | Interest paid | 36.9 | *36.9* |
| (0.5) | *(0.5)* | Interest received | (0.5) | *(1.4)* |
| (1.5) | *(1.5)* | Dividends received | (2.0) | *(2.0)* |
| **34.0** | ***(34.0)*** | | **34.4** | ***33.5*** |

## Note 15 Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-2018 financial year and its position at 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-2018 and the Service Reporting Code of Practice 2017-2018, 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 categories of non-current assets and financial instruments.

### 2. Recognition of Income and Expenditure



Activity is accounted for in the year that 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 measure reliably 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.
- 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 necessarily the cash flows fixed or determined by the contract.
- Where revenue and expenditure has 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.
- Manual Accruals are only processed for amounts of £10,000 or more except where the expenditure is by schools or funded directly from external grants.

### 3. Accounting for Council Tax

- While the Council Tax 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 Authority's General Fund or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year.
- The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- The cash collected by the Authority from Council Tax payers belongs proportionately to all the major preceptors. The difference between the amounts collected on behalf of the other major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.



### 4. Accounting for Non-Domestic Rates (NDR)

The NDR 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 paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non-Domestic Rates (NNDR) 1 return.

- The NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of the Collection Fund's accrued income for the year from the NNDR 3 return. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to non-domestic rates shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- The cash collected by the Authority from NDR payers belongs proportionately to all the major preceptors (excluding police bodies) and Government. The difference between the amounts collected on behalf of the other major preceptors, Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

**5. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**6. 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.

**7. 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, i.e. 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, other 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.

**8. Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are charged 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 assets attributable to the service.

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations, however, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, known as Minimum Revenue Provision, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

**9. Employee Benefits**

**Benefits Payable During Employment -** Short-term employee benefits are those due to be settled in their entirety within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits 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 holiday entitlements (and any other form of leave) earned by employees but not taken before the year end, and which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement in the Accumulated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.



**Termination Benefits -** Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits, and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of the point at which the authority can no longer withdraw the offer of those benefits or when the authority recognises the costs of the restructure.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or 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 Pensions 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 three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pension Scheme administered by EA Finance NHS Pensions; and

- The Local Government Pensions Scheme, administered by West Midlands Pension Fund.

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council. The arrangements, however, for the teachers' scheme and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Young People line and Public Health & Wellbeing line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pension Scheme and NHS Pension Scheme in the year respectively.

**The Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The liabilities of the West Midlands Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the 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 based on the redemption yields on AA-rated corporate bonds with a term corresponding to the term of the liabilities. The assets of West Midlands Pension Fund attributable to the Council are included in the Balance Sheet at their fair value, which varies depending on the type of asset:

- 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 components:

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 relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provisions of Services in the Comprehensive Income and Expenditure Statement.

- Net interest on the net defined benefit liability / asset, i.e. net interest expense for the Council – the change during the 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.

Changes in valuations 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 and recognised as Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.



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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations 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 of being required to account for retirement benefits on the basis of cash flows rather than as benefits 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) 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.

**10. Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period, 31 March 2018, and the date when the Statement of Accounts is authorised for issue. Two types of event 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 authorisation for issue are not reflected in the Statement of Accounts.

**11. 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. 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 over the life of the instrument to the amount at which it was originally recognised.



For most of the borrowing that the Council has, this means that 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. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement.

Where premiums 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 payable or discount receivable 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 loans the Council has made, 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.

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 Investments 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 and losses that arise on the de-recognition of the asset are credited or 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 fair value. 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 (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- 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 prices - independent 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 authority 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 Reserve and the gain/loss is recognised in the Surplus or 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 or 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 and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**Offsetting Financial Assets and Liabilities -** A financial asset and a financial liability shall be offset, and the net amount presented in the Balance Sheet when the Council has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**12. 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 effective.

### 13. 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 have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset received 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 grant issuing body.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are 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 once they have been applied to fund capital expenditure.



### 14. 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 (e.g. 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 websites are 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. The depreciable amount of an intangible asset is amortised 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 Reverses Statement and posted to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

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

The Council has three subsidiary entities: Wolverhampton Homes Limited, Yoo Recruit Limited and WV Living (City of Wolverhampton Housing Company Limited). Due to materiality only, Wolverhampton Homes Limited is currently required to be consolidated in the group accounts statements. The council has no other material interests in companies or other entities that have the nature of a subsidiary, associate or jointly-controlled entity.



**Schools -** The *Code of Practice on Local Authority Accounting in the United Kingdom* confirms that the balance of control for local authority-maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the Council. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the Council financial statements (and not the Group Accounts). Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

**16. Inventories**

Inventories are included on the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average costing formula. Any changes arising are adjustments in the surplus or deficit on provision of services.

**17. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at current 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. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are

posted to the Financing and Investment Income and Expenditure line 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 the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance, however, revaluation and disposal gains and losses are not permitted by statutory arrangements 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 transferred to the Capital Adjustment Account and, for any sale proceeds greater than £10,000, the Capital Receipts Reserve.

**18. Jointly Controlled Arrangements**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation the Council, as a joint operator, recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.



**19. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as 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 and equipment held under finance leases 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.

Premiums paid on entry into a lease are applied to write 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 which is charged 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.



**The Council as Lessee: Operating leases -** Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting 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 e.g. there is a rent-free period at the commencement of the lease.

**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 (whether Property, Plant and Equipment, or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or 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 as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of 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 (together with any premiums received) – 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 increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the General Fund Balance to the Capital

Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

**The Council as Lessor: Operating Leases -** Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

**20. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service. 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.

**21. Property, Plant and Equipment**

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

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

**Measurement -** Assets are initially measured at cost, comprising the purchase price and 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, subject to a de-minimus value of £100,000 for land and property and heritage assets and £10,000 for new vehicles, plant and equipment. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of an asset acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. 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.

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.

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

- Infrastructure, community assets and assets under construction - depreciated historical cost;
- Dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value;
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets have short useful lives or low values (or both), the depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end. Assets with a Net Book value over £1 million are valued annually and other assets at least every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- 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 (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) 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 as to whether there is any indication that an asset may be impaired. Where indications exist, and any possible differences are 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, they are accounted for by:

- 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 (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.



Where an impairment loss is subsequently reversed, 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 depreciation that would have been charged if the loss had not been recognised.

**Depreciation -** Depreciation is provided for, on all Property, Plant and Equipment assets, by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is charged on surplus assets.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property or component as estimated by the valuer;
- Vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset;
- Infrastructure - straight-line allocation over 50 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost 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 an asset is disposed of or decommissioned the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement, as part of the gain or loss on disposal. Receipts from disposals, if any, are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.



Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Council's underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

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 current value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on 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 not to sell.

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

### 22. Private Finance Initiative (PFI) and Similar Contracts

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 PFI contractor. As the Council is deemed to control the services that are provided under PFI schemes, 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 current value, based on the cost to purchase the property, plant and equipment, was balanced by the recognition of a liability for amounts due to the scheme operator, from the Council and third parties where relevant, to pay for the capital investment. 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 PFI operators each year are analysed into five elements:

- **Fair value of the services received during the year** - charged to the relevant service in the Comprehensive Income and Expenditure Statement;
- **Finance cost** - an interest charge on the outstanding Balance Sheet liability, charged 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, charged 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 to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **Lifecycle replacement costs** – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Third party income is recognised in the Comprehensive Income and Expenditure Statement, reflecting the extent to which the asset and the service are financed by third party income.

### 23. Provisions, Contingent Liabilities and Contingent Assets

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. 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 e.g. 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.

**Contingent Liabilities -** A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence 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 a note to the accounts.



**Contingent Assets** - A contingent asset arises where an event has taken place that gives the authority 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 authority.

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

**24. 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 against the Surplus or Deficit on the Provision for Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in 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.

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

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation or enhancement of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council

determines to meet the cost of this expenditure from capital resources, a transfer in 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.

**26. Value Added Tax**

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

**27. Pension Fund Accounts**

As a result of Local Government Reorganisation on 1 April 1986, the Council assumed responsibility for administering the West Midlands Pension Fund. The fund's accounts are separately prepared and are included within these accounts. The accounting policies for the pension fund can be found at note P3 in the accounts.

Copies of the fund's Accounts and Annual Report are available on request from the Director of Finance, Civic Centre, Wolverhampton, WV1 1RL.



**28. Heritage Assets**

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, with the following exceptions:

- Where there is no market-based evidence of fair value, insurance valuation is used as an estimate of current value;
- There is no cyclical revaluation of heritage assets, which instead are kept under review for impairment on an annual basis;
- The groupings used to classify property, plant and equipment assets are not used for heritage assets.

**29. Accounting for the Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the fourth year of its second phase which will last until 31 March 2019. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the Balance Sheet date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption. CRC scheme assets are classified as either current intangible assets or, if held for the purposes of trading, as current assets. The asset is initially measured at cost.

Allowances that are issued for less than their fair value are initially measured at their fair value, with the difference between fair value and the purchase price recognised as income.

**Note 15A Changes in Accounting Policies from Previous Year**

During the year, the Council introduced a new accounting policy with respect to insurance contracts. 'IFRS4 Insurance Contracts' requires an insurer (in this case the Council) to assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows and related cash flows under its insurance contracts (the 'liability adequacy test'). If the test shows the liability is inadequate, the entire deficiency should be recognised in the 'Surplus or deficit on the provision of services'. Thereafter, at the end of each reporting period, the liability should be re-assessed, and any movement reflected in the 'Surplus or deficit on the provision of services'.

Specifically, this policy applies to pension guarantees provided by the Council to a number of organisations that have been admitted to West Midlands Pension Fund, (further detail provided in Note 9c).



The Council has considerd the impact of this new policy on opening balances. The Council's methodology used when assessing pension guarantees in previous years has been in accordance with the new policy and therefore there is no impact on opening balances. This policy will provide clarity on the Council's treatment of insurance contracts.

**Note 15B Critical Judgements Made When Applying the Accounting Policies**

In applying the accounting policies set out in this note, the Council has made judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

**Group Accounts**

The Council is the sole shareholder of Wolverhampton Homes Limited, an arm's length management organisation that provides housing management services to the Council in respect of its HRA dwellings. It has been determined that the Council is able to control Wolverhampton Homes Limited, and it has therefore been consolidated within the Group Accounts.

Yoo Recruit Limited was formed as a wholly-owned subsidiary of the Council in 2013-2014. The turnover of this company for 2017-2018 was approximately £9.2 million, of which £8.7 million was derived from the Council, with a net income after tax of £74,000. As the impact on the group accounts are considered, by the Council, to be not material they have not been consolidated in the Group Accounts.

The Council is the main funder of Wolverhampton Grand Theatre (1982) Limited and, in practice, bears the risk of the Theatre going into overall deficit as well as having the power to appoint and remove directors of the company. Although the Council does have significant influence as the transactions and balances of this company are considered, by the Council, to be not material they have not been consolidated in the Group Accounts.
During 2012-2013, ConnectEd Partnership Ltd (previously Wolverhampton Schools' Improvement Partnership) was established as a company limited by guarantee. The directors of the company are representatives of local schools and the senior substantive council officer for schools. Two Councillors are non-voting directors. Whilst in this way the Council exerts significant influence over the activities of the company, it has been determined that the transactions and balances of the company are not material to the Council's accounts, and it has therefore not been consolidated in the Group Accounts.

The Council, along with the other six West Midlands district Councils, holds shares in Birmingham Airport Holdings Limited. As the Council is of the view that it does not have the power to influence or control the airport it has not been consolidated in the Group Accounts.

WV Living was formed as a wholly-owned subsidiary of the Council in 2016-2017. As the impact on the group accounts are considered by the Council, to be not material they have not been consolidated in the Group Accounts. During 2017-2018 the company has incurred expenditure of £2.4 million, £1.0 million of this being transactions with the council.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool. Each authority has one Class A voting share in LGPS Central. £1,315,000 has been invested in Class B shares by each administering authority, and £685,000 in a loan to LGPS Central by seven of the authorities during the year. WMPF has invested in £685,000 of Class C shares. These are the balances at year end. No services were provided by LGPS Central Ltd during 2017-2018 as operation only commenced in April 2018. £777,876 has been spent by WMPF on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then £ 680,642 recharged equally to the administering authorities. A balance of £97,234 remains with WMPF reflecting the cost of setting up the enterprise to the end of March 2018. LGPS Central is an admitted body and employs staff that are active members of the WMPF. As a result, LGPS central made contributions to the fund on behalf of staff totalling £8,582 in 2017-2018. This is disclosed in WMPF's financial statements and therefore has not been consolidated in the Council's Group Accounts.



**Private Finance Initiative (PFI) Contracts**
The Council provides services, via private sector partners, under a PFI or PFI-type contracts in four areas: The Waste Disposal Facility, the Bentley Bridge Leisure Centre, the Highfields and Penn Fields School contract and the St. Matthias School and Heath Park Academy contract. In the Waste Disposal Facility, the Bentley Bridge Leisure Centre and the Highfields and Penn Fields Schools contracts, it has been determined that the Council controls the use of the relevant non-current assets and, as a result the relevant assets and corresponding liabilities were recognised in the Council's balance sheet. Subsequent to the commencement of the Highfields and Penn Fields schools contract Highfields School converted to an Academy, in the 2014-2015 financial year, and as the Council no longer has control over the asset and the services to be provided it was determined by the Council that the asset for Highfields School should be de-recognised. The contract for St. Matthias School and Heath Park Academy commenced during 2015-

2016. Both assets have been initially recognised in the Council's Balance Sheet, however, as Heath Park Academy is an existing Academy and the Council has no control over the asset and services to be provided the asset for this school has subsequently been de-recognised in the Council's Balance Sheet. St. Matthias School is still under the control of the Council and, accordingly, this asset remains on the Council's Balance Sheet.

**Equal Pay Back Pay**

Under the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendments) Regulations 2003, employees are entitled to equal pay for work of equal value. Where this has historically not been the case, the Council may be liable to make compensatory payments to employees who were disadvantaged by the prevailing rates of pay.

The timing and amount of any such compensation payments are not certain, however, a provision has been established based on high-level estimates of the total potential liability.



**Property, Plant and Equipment Relating to Voluntary Aided Schools**

The Council owns land which is leased to a number of voluntary aided schools who have, with its consent, erected school buildings. The school buildings belong to the foundation/controlling interest and, therefore, the Council cannot exercise control over those buildings. Until the tenant decides to remove or vacate and demolish those buildings there is no alternative use for this site and therefore no market value in the land. Whilst the schools provide a service to the City of Wolverhampton by delivering education from those sites, the cost of maintaining the schools falls upon the Dedicated Schools Grant or other entities. The land on which those buildings are sited is therefore not recognised as an asset of the Council.

**Property, Plant and Equipment Relating to Academy Schools**

When a school converts to Academy status the Council enters into a long-term lease which is classified as a finance lease since substantially all associated risks and rewards of ownership of the asset have been transferred to the Academy. As the Council, would no longer control or maintain the asset for the majority of its economic life the buildings are removed from the balance sheet as a disposal with effect from when the Council's control over the services provided by the school ceases.

**Accounting for the Voluntary Redundancy Programme**

The Council continued to accept applications for voluntary redundancy during 2017-2018, and there were a number of employees who were part-way through the approval process at the year end. The Council has taken a prudent approach to the treatment of the anticipated costs of such employees, recognising those costs as a provision in 2017-2018 where it seemed likely that approval would be given, and a redundancy would result.

**Business Rates**
Following the changes to business rates retention, which commenced on 1 April 2014, Councils have assumed the liability for refunding rate payers who successfully appeal against the rateable value of their properties, including amounts that were paid to the Government in 2012-2013 and earlier. The Council has set aside a provision for these refunds, calculated using the Valuation Office list of ratings appeals data

**Schools**

Schools within Wolverhampton are managed in a variety of ways including Council Community Schools, Voluntary Aided, Voluntary Controlled and Academies. The Council has reviewed each category of school and considered the extent to which the Council has control over the school in respect to the employment of staff, governance arrangements, maintenance of the land and buildings and admissions.

Academy Schools – Academies are entirely separate entities of the Council and therefore the Council has no control over the operation of the school. Land and buildings are transferred to the academies through a standard 125 year lease. It is anticipated that these arrangements will continue and, therefore, substantially all associated risks and rewards of ownership are transferred. As a result, the leases are classed as finance leases.

Voluntary Aided Schools – A separate trustee has substantial influence and control over the voluntary aided school. A Governing Body is appointed by the Trustee to manage the school's operation and maintenance. In Wolverhampton, the relevant trustees are The Archdiocese of Birmingham and the Diocese of Lichfield. Since the Council does not have substantial control over these schools the related assets are not consolidated in the balance sheet.

Voluntary Controlled Schools – It is determined that the Council has substantial control over these schools since the Council determines the admission criteria and maintains the land and buildings. The assets relating to Voluntary Controlled Schools are, therefore, consolidated in the balance sheet of the Council.



**Note 15C Major Assumptions about the Future**
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. Because balances, however, 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Pensions Net Liability**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The table below sets out the impact on the net pension liability if different assumptions had been made in certain key areas:

| Variation to Assumptions | Impact on Net Liability | |
|---|---|---|
| | Council | *Group* |
| Discount Rate 0.1% higher | Decrease of £29.3 million | *Decrease of £33.1 million* |
| Rate of Inflation 0.1% p.a. higher | Increase of £27.2 million | *Increase of £30.50 million* |
| Rate of increase in salaries 0.1% p.a. higher | Increase of £2.6 million | *Increase of £3.2 million* |
| Life expectancy of scheme members 1 year higher | Increase of £65.7 million | *Increase of £72.4 million* |



**Property, Plant and Equipment**

The Council has all property, plant and equipment assets required to be valued at current value and with a current Net Book value in excess of £1.0 million valued annually and carries out a rolling programme that ensures the remainder are revalued at least every five years. The Council seeks assurance for the assets not valued that there is no material change to their value. The valuations are carried out by external valuers. The housing stock is valued by the Valuation Office Agency and the remaining assets by registered RICS valuers Bruton Knowles.

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase in these circumstances.

**Arrears**

At 31 March 2018, the Council had a receivables balance, before the bad debt provision, of £65.5 million. A provision has been made against these receivables based on the age of the debt outstanding and historical collection rates with a resultant doubtful debts provision of £25.2 million that was considered to be appropriate. In the current economic climate, however, it is not certain that such an allowance would be sufficient. If collection rates were to deteriorate an increase in the amount of the impairment of the doubtful debts would be required.

**Note 15D Accounting Standards Issued but Not Yet Adopted**

- **IFRS 9 Financial instruments** introduces new classes and treatment of financial instruments and a requirement to account for expected credit loss. These changes are not expected to have a material impact on the Council's financial position.

- **IFRS 15 Revenue from Contracts with Customers** introduces new requirements for recognising revenue from contracts. The Council has modelled the effect of this standard and does not anticipate the effect to be material.

# 5. THE HOUSING REVENUE ACCOUNT STATEMENTS

**Housing Revenue Account Income and Expenditure Statement**

| 2016-2017 £m | | Notes | 2017-2018 £m |
|---|---|---|---|
| (93.2) | Gross Rents - Dwellings | | (90.9) |
| (1.0) | Gross Rents - Non-Dwellings | | (0.8) |
| (5.2) | Charges to Tenants for Services and Facilities | | (5.4) |
| - | Contributions | | - |
| **(99.4)** | **Total Income** | | **(97.1)** |
| | | | |
| 25.8 | Repairs and Maintenance | | 25.8 |
| 18.6 | Supervision and Management | | 19.6 |
| 0.1 | Rents, Rates and Taxes | | 0.5 |
| 2.4 | Increase in Allowance for Bad Debts | | 0.4 |
| 22.2 | Depreciation of Property, Plant and Equipment | **H1** | 17.2 |
| (85.0) | Revaluation/impairment of Property, Plant and Equipment | **H2** | 71.0 |
| **(15.9)** | **Total Expenditure** | | **134.5** |
| | | | |
| **(115.3)** | **Net Cost of HRA Services as included in Council Comprehensive Income and Expenditure Statement** | | **37.4** |
| | | | |
| 0.2 | HRA Share of Corporate and Democratic Core | | 0.2 |
| | | | |
| **(115.1)** | **Net Cost of HRA Services** | | **37.6** |
| - | Sums Directed by the Secretary of State that are Expenditure in Accordance with the Code | | - |
| (4.2) | (Gain) on Sale of Property, Plant and Equipment | | (4.4) |
| - | (Gain) on the Fair Value of Investment Assets | | - |
| 11.1 | Interest Payable | | 10.4 |
| (0.1) | Interest and Investment Income | | - |
| **(108.3)** | **(Surplus)/Deficit for the Year** | | **43.6** |

# 5. THE HOUSING REVENUE ACCOUNT STATEMENTS

**Movement on the Housing Revenue Account Balance Statement**

| 2016-2017 £m | | Notes | 2017-2018 £m |
|---|---|---|---|
| | | | |
| **(5.0)** | **Opening HRA Balance** | | **(5.0)** |
| | | | |
| | (Increase)/Decrease in the HRA balance for the year analysed between: | | |
| (108.3) | - (Surplus)/Deficit for the year on the Income and Expenditure Account | | 43.6 |
| 108.3 | - Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for the year | **H3** | (45.6) |
| **-** | **(Increase)/Decrease in the HRA balance for the year** | | **(2.0)** |
| | | | |
| **(5.0)** | **Closing HRA Balance** | | **(7.0)** |



**Notes to the Housing Revenue Account Statements**

**Note H1 – Depreciation**

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| 21.8 | Council Dwellings | 17.0 |
| 0.2 | Other Land and Buildings | 0.2 |
| 0.2 | Vehicles, Plant, Furniture and Equipment | 0 |
| **22.2** | **Total Depreciation Charge for the Year** | **17.2** |

Under the Housing Revenue Account regulations, depreciation and impairment charges are reversed out and replaced with a provision for the repayment of debt.

**Note H2 – Revaluation**

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| (85.0) | Council Dwellings | 71.0 |
| - | Other Land and Buildings | - |
| **(85.0)** | **Total revaluation/Impairment Charge for the Year** | **71.0** |

The revaluation is made up of a £49.7 million uplift due to the annual review to reflect changes in value due to local market conditions

**Note H3 – Analysis of the Movement on the HRA Balance Statement**

| 2016-2017 £m | | Note | 2017-2018 £m |
|---|---|---|---|
| **108.3** | **Net additional amount required to be debited or credited to the HRA Balance** | | **(45.6)** |
| | | | |
| | Comprising: | | |
| | **Amounts included in the Income and Expenditure Account but not in the HRA Balance** | | |
| 4.2 | - Net Gain on Sale of Property, Plant and Equipment | | 12.5 |
| 85.0 | - Impairment/revaluation of Property, Plant and Equipment | **H2** | (71.0) |
| | - Capital Expenditure Funded by the HRA | | - |
| | - Net Gain / (Loss) on the Fair Value of Investment Assets | | (8.2) |
| **89.2** | **Subtotal** | | **(66.7)** |
| | **Amounts not in the Income and Expenditure Account but included in the HRA Balance** | | |
| | - HRA Share of Contribution to Pension Reserve | **H4** | - |
| (0.3) | - Adjustment for Premiums and Discounts | | 0.1 |
| 19.3 | - Amount Set Aside for the Repayment of Debt | | 23.6 |
| 0.1 | - Transfer to/(from) Earmarked Reserves | | (2.6) |
| **19.1** | **Subtotal** | | **21.1** |
| | | | |
| **108.3** | **Total** | | **(45.6)** |

**Note H4 – Contribution to the Pension Reserve**

Retirement benefits are offered to employees by the Council as part of the terms and conditions of employment. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments. This commitment needs to be disclosed at the time that employees earn their future entitlement. The pension reserve reflects the projected shortfall in the amount which may need to be provided in the future to current employees of the Housing Revenue Account. Further details on this may be found in Note 6 to the Core Financial Statements.

**Note H5 – Housing Stock**

The number of dwellings held or leased by the Council on the below dates (excluding properties earmarked for demolition or sale) are shown in the following table.

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| 4,892 | Low Rise Flats | 4,849 |
| 2,914 | Medium Rise Flats | 2,897 |
| 2,116 | High Rise Flats | 2,111 |
| 12,555 | Houses and Bungalows | 12,357 |
| **22,477** | **Total Dwellings Owned by the Council** | **22,214** |
| 14 | Homeless Dwellings (Leased) | 14 |
| **22,491** | | **22,228** |

**Note H6 – Housing Revenue Account Property, Plant and Equipment**

The following table shows the total Balance Sheet values of the land, houses and other property within the Housing Revenue Account at the end of the year.

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 687.8 | - Council Dwellings | 628.0 |
| 8.1 | - Other Land and Buildings | 11.9 |
| - | - Vehicles, Plant, Furniture and Equipment | - |
| - | - Intangible Assets | - |
| **695.9** | **Total Property, Plant and Equipment** | **639.9** |

**Note H7 – The Vacant Possession Value of Dwellings**

The vacant possession value of the stock of dwellings at 31 March 2018 (at 1 April 2016 prices) amounted to £1.570.1 million (31 March 2017: £1,719.6 million). The value of dwellings shown on the Balance Sheet is the existing use value (social housing), which is 40% of the vacant possession value (this ratio is set by the Government). The difference between the two values demonstrates the economic cost to Government of providing Council housing at less than open market rents.

**Note H8 – Capital**

Capital expenditure on land, houses and other property within the HRA during the year and how it was paid for is shown in the following table.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| | Sources of Funding | |
| (3.2) | - Borrowing | (6.3) |
| (7.6) | - Usable Capital Receipts | (12.8) |
| (22.1) | - Major Repairs Reserve | (17) |
| (0.7) | - Government and EU Grants | (0.1) |
| - | - Other Contributions | (0.1) |
| **(33.6)** | **Total Capital Expenditure** | **(36.3)** |

Capital receipts generated during 2017-2018 from the disposal of HRA assets are detailed in the following table.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| (10.2) | Sale of Council Houses (including Right-to-Buy) | (9.9) |
| (1.4) | Sale of Other Land and Buildings | (0.4) |
| - | Repaid Discounts | - |
| **(11.6)** | **Total Capital Receipts** | **(10.3)** |

These receipts were split between the Council and the Government, as shown in the table below.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| 2.1 | Paid over to Government | 2.2 |
| (13.7) | Available to Finance Capital Expenditure | (12.5) |
| **(11.6)** | **Total Capital Receipts** | **(10.3)** |

**Note H9 – Rent Arrears**

During 2017-2018, there was no change overall to total rent arrears. Within total rent arrears, current tenants' arrears as a proportion of net rental income was 1.3%, 0.1% higher than in 2016-2017. The comparative total figures are shown in the following table.

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 1.2 | Current Tenants | 1.3 |
| 0.9 | Former Tenants | 0.8 |
| **2.1** | **Total Arrears** | **2.1** |

An allowance is maintained for these debts which also includes tenant recharges. The table below details the movement in the year.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| **1.6** | **Allowance for Bad and Doubtful Debts Brought Forward** | **1.9** |
| (0.8) | Amounts Written Off during the Year | (0.3) |
| 1.1 | Increase in Allowance Charged to the HRA during the Year | 0.4 |
| **1.9** | **Allowance for Bad and Doubtful Debts Carried Forward** | **2.0** |

**Note H10 – Major Repairs Reserve**

This is a discretionary reserve to which the Council's Major Repairs Allowance (MRA) is transferred, and that is used to finance major repairs to HRA property. The MRA was determined by the Government as part of the final HRA subsidy determination. Where total HRA depreciation charges are greater than the MRA it is a requirement that an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve.

| 2016-2017 £m | | 2017-2018 £m |
|---|---|---|
| **(0.2)** | **Balance Brought Forward** | **(0.2)** |
| (22.2) | Transfer of MRA from the Capital Adjustment Account | (17) |
| 22.2 | Capital Expenditure on Land and Property in the HRA | 17 |
| **(0.2)** | **Balance Carried Forward** | **(0.2)** |

# 6. THE COLLECTION FUND STATEMENT

**The Collection Fund Statement**

| 2016-2017 £m | | Note | 2017-2018 £m |
|---|---|---|---|
| | | | |
| | **Deficit/(Surplus) Brought Forward** | | |
| 3.7 | City of Wolverhampton Council | | 6.2 |
| (0.2) | West Midlands Police and Crime Commissioner | | (0.1) |
| - | West Midlands Fire and Rescue Authority | | 0.1 |
| 6.4 | Central Government | | 7.0 |
| **9.9** | | | **13.2** |
| | **Income** | | |
| (99.9) | Council Tax | **C1** | (105.8) |
| (75.3) | Non-Domestic Rates | **C2** | (72.7) |
| 2.3 | Transition Protection Payments - NDR | | 1.2 |
| **(172.9)** | **Total Income** | | **(177.3)** |
| | | | |
| | **Expenditure** | | |
| | Precepts and Demands | | |
| 86.0 | City of Wolverhampton Council | | 90.9 |
| 6.7 | West Midlands Police and Crime Commissioner | | 7.2 |
| 3.4 | West Midlands Fire and Rescue Authority | | 3.5 |
| | | | |
| | **Non-Domestic Rates** | | |
| 38.6 | Central Government | | - |
| 0.8 | West Midlands Fire and Rescue Authority | | 0.7 |
| 37.8 | City of Wolverhampton Council | | 70.5 |
| 0.3 | Cost of Collection Allowance | | 0.3 |
| | | | |

# 6. THE COLLECTION FUND STATEMENT

| 2016-2017 £m | | Note | 2017-2018 £m |
|---|---|---|---|
| | Distribution of Council Tax Surplus/(Payment of Deficit) | | |
| 2.3 | City of Wolverhampton Council | | 1.3 |
| 0.2 | West Midlands Police and Crime Commissioner | | 0.1 |
| 0.1 | West Midlands Fire and Rescue Authority | | 0.1 |
| | | | |
| | Distribution of Business Rates Surplus/(Payment of Deficit) | | |
| (4.6) | City of Wolverhampton Council | | (4.2) |
| (4.6) | Central Government | | (4.3) |
| (0.1) | West Midlands Fire and Rescue Authority | | (0.1) |
| | | | |
| | Allowance for Bad and Doubtful Debts | | |
| 3.2 | Council Tax | | 2.4 |
| 5.0 | Non-Domestic Rates | | 0.4 |
| | | | |
| 1.1 | Provision for appeals | | (4.5) |
| **176.2** | **Total Expenditure** | | **164.3** |
| | | | |
| **3.3** | **Deficit/(Surplus) for the Year** | | **(13.0)** |
| | | | |
| | **Deficit/(Surplus) Carried Forward** | | |
| 6.2 | City of Wolverhampton Council | | (2.4) |
| (0.1) | West Midlands Police and Crime Commissioner | | (0.1) |
| 0.1 | West Midlands Fire and Rescue Authority | | - |
| 7.0 | Central Government | | 2.7 |
| **13.2** | | | **0.2** |

**Notes to the Collection Fund Statement**

**Note C1 – The Council Tax Base**

Council tax income derives from charges raised according to the residential properties, which have been classified into eight valuation bands. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund for the forthcoming year and dividing this by the tax base. The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings. Council tax bills were based on the following proportions for bands A to H.

| Band | Total Number of Chargeable Dwellings after Effect of Discount | Ratio | Band D Equivalent Dwellings (After allowance for council tax support) | Council Tax including Adult Social Care precept (Single Person Household) £ | Council Tax including Adult Social Care precept (Multiple Occupancy) £ |
|---|---|---|---|---|---|
| A Disabled | 76.33 | 5/9 | 42.41 | 689.50 | 919.33 |
| A | 33,328.74 | 6/9 | 22,219.16 | 827.40 | 1,103.20 |
| B | 18,134.79 | 7/9 | 14,104.83 | 965.30 | 1,287.07 |
| C | 13,704.61 | 8/9 | 12,181.88 | 1,103.20 | 1,470.94 |
| D | 5,755.04 | 9/9 | 5,755.04 | 1,241.11 | 1,654.81 |
| E | 2,653.76 | 11/9 | 3,243.48 | 1,516.91 | 2,022.55 |
| F | 1,539.66 | 13/9 | 2,223.95 | 1,792.71 | 2,390.28 |
| G | 870.58 | 15/9 | 1,450.97 | 2,068.51 | 2,758.01 |
| H | 87.86 | 18/9 | 175.73 | 2,482.21 | 3,309.62 |
| | **76,151.37** | | **61,397.45** | | |

**Note C2 – Non-Domestic Rates**

The Council collects Non-Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set by Central Government.

Local authorities retain a proportion of the total collectable rates due. In Wolverhampton, the Council retain 99% and the remaining 1% is paid to West Midlands Fire Service and Rescue Authority.

The total non-domestic rateable value was £194.9 million as at 31 March 2018 (£189.7 million as at 31 March 2017). The national multipliers for 2017-2018 were 46.6p for qualifying small businesses, and the standard multiplier was 47.9p for all other businesses (48.4p and 49.7p respectively in 2016-2017).

# 7. WEST MIDLANDS PENSION FUND STATEMENTS

**Fund Account**

| 2016/17 £m | | Note | 2017/18 £m |
|---|---|---|---|
| | **Contributions & Benefits** | | |
| (529.8) | Contributions Receivable | P8 | (1,040.0) |
| (16.6) | Transfers In | P9 | (25.6) |
| (15.1) | Other Income | P10 | (14.5) |
| **(561.5)** | **Total contributions and other income** | | **(1,080.1)** |
| | | | |
| 531.3 | Benefits Payable | P11 | 555.9 |
| 27.7 | Payments to and on account of leavers | P12 | 41.0 |
| 0.4 | Other Payments | | 0.7 |
| **559.4** | **Total benefits and other expenditure** | | **597.6** |
| | | | |
| **71.0** | **Management Expenses** | P13 | **65.3** |
| | | | |
| | **Returns on Investments** | | |
| (205.8) | Investment Income | P14 | (257.8) |
| (2,115.1) | Changes in Value of Investments | | 315.0 |
| (381.7) | Profits and Losses on Disposal of Investments | | (616.3) |
| **(2,702.6)** | **Net return on investments** | | **(559.1)** |
| | | | |
| **(2,633.7)** | **Net (Increase) in the Fund During the Year** | | **(976.3)** |
| | | | |
| **11,660.7** | **Net Assets of the Fund at the beginning of the year** | | **14,294.4** |
| | | | |
| **14,294.4** | **Net Assets of the Fund at the end of the year** | | **15,270.7** |

Net Assets Statement

| 31 March 2017 £m | | Note | 31 March 2018 £m |
|---|---|---|---|
| | **Investment Assets (at Market Value)** | P15 | |
| 192.4 | Bonds | | 188.5 |
| 1,368.4 | UK Equities | | 1,492.2 |
| 5,920.3 | Overseas Equities | | 6,343.5 |
| 5,574.4 | Pooled Investment Vehicles | | 5,351.9 |
| 756.4 | Property | | 882.9 |
| - | Derivatives - Futures | | - |
| - | Derivatives - Forward Foreign Exchange | | 44.9 |
| 111.8 | Foreign Currency Holdings | | 126.0 |
| 304.1 | Cash Deposits | | 830.1 |
| 0.2 | Other Investment Assets | | 0.4 |
| 24.7 | Outstanding Dividend Entitlement and Recoverable With-Holding Tax | | 45.2 |
| | | | |
| **14,252.7** | **Investment Assets** | | **15,305.6** |
| | | | |
| | **Investment Liabilities (at Market Value)** | P15 | |
| - | Other Investment Liabilities | | - |
| - | **Investment Liabilities** | | - |
| | | | |
| **14,252.7** | **Net Investment Assets** | | **15,305.6** |
| | | | |
| **0.1** | **Long Term Investments** | P27 | **2.1** |
| | | | |
| **16.2** | **Other Long-Term Assets** | P19 | **25.1** |
| | | | |
| **58.2** | **Current Assets** | P20 | **248.7** |
| | | | |
| **(32.8)** | **Current Liabilities** | P21 | **(310.8)** |
| | | | |
| **14,294.4** | **Net Assets of the Fund at the end of the year** | | **15,270.7** |

# 7. WEST MIDLANDS PENSION FUND STATEMENTS

The accounts summarise the transactions of the Fund and deal with the net assets at its disposal. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the actuarial certificate/statement.

The notes form part of these financial statements.

**Notes to the Pension Fund Statements**

**Note P1 - General**

The description in this note is a high-level summary of the Fund's activities, and more detail is available in the Fund's Annual Report 2018, which can be found on its website at: http://www.wmpfonline.com/article/4764/Annual-Reports.

West Midlands Pension Fund is part of the Local Government Pension Scheme, and is administered by the City of Wolverhampton Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. Membership of the Fund is available to all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region, together with employees of sheduled and admitted bodies. At 31 March 2018, the Fund had 622 participating employers, and 313,399 members, as set out in the following table. A full list of participating employers can be found in the Fund's annual report.

| 31 March 2017 No. | | 31 March 2018 No. |
|---|---|---|
| 117,005 | Active Members | 118,093 |
| 88,496 | Pensioner Members | 91,741 |
| 96,591 | Deferred Members | 103,565 |
| **302,092** | **Total** | **313,399** |

The council's Pensions Committee has delegated responsibility for administering the Fund. It meets at approximately quarterly intervals, and has members from each of the seven metropolitan district councils in the West Midlands. A Pensions Board was also in operation during 2017/18. Membership of the Committee and Board can be found on the City of Wolverhsampton Council website: http://wolverhampton.moderngov.co.uk/mgListCommittees.aspx?bcr=1

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:
(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The valuation in relation to 2017/18 contribution rates was conducted at 31 March 2016 . Employer contribution rates during 2017/18 ranged from 10.2% to 44.7% of pensionable pay.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the Consumer Price Index. Pension entitlements accrued prior to this date continue to be based on final salary.

**Note P2 - Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note P6 of these accounts.

**Note P3 - Statement of Accounting Policies**

**A. Fund Account**
In the Fund Account, income and expenditure are accounted for in the year in which they accrue by the creation of payables and receivables at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end (see note P9).

**B. Contribution Income**
Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions (including past service deficit contributions and excluding additional voluntary contributions) as notified by employers for the period have also been included. Past service deficit contributions are accounted for in the year in which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset, with amounts due after the following year classed as long-term financial assets.

Where employing organisations have not submitted all of the certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns actually received from these bodies.

**C. Transfers to and from other schemes**
Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2018, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis, and are reported within transfers in.

**D. Investment Income**

**i) Interest Income**

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

**ii) Dividend Income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due, have been accrued for in the accounts.

**iii) Distributions from Pooled Funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**iv) Property-Related Income**

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

**v) Changes in the Value of Investments**

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.



**E. Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

**F. Benefits Payable**

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2018. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

**G. Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note to the accounts). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

**H. Freehold and Leasehold Properties**
These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, chartered surveyors, as at 31 March 2018. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Savills Plc, agricultural valuers, at the same date.

**I. Foreign Currencies**
Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2018.

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2018.

**J. Derivatives**
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

**K. Movement in the net market value of investments**
Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

**L. Cash and Cash Equivalents**
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**M. Financial Liabilities**
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**N. Management Expenses**
The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund, along with all other costs incurred directly on Fund activities, and an apportionment for corporate support services provided by the Council.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of their mandate is used for inclusion in the Fund Account.

The cost of external investment advice is included in investment management expenses, as is the cost of the Fund's in-house investment management team.

**O. Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see note P5).

**P. Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in acccordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note P22).

**Note P4 - Critical Judgements in Applying Accounting Policies**

**Unquoted Private Equity Investments**

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor valuation report has not been received from the fund manager the security is valued at cost. The value of unquoted private equity at 31 March 2018 was £1,191.0million (£1,343.6 million at 31 March 2017).

**Pension Fund Liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note P6. This estimate is subject to significant variances based on changes to the underlying assumptions.

**Note P5 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

**Actuarial present value of promised retirement benefits**

Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Barnett Waddingham, the Fund's consulting actuaries, are engaged to provide expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions
The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, however an increase in assumed earnings inflation or assumed life expectancy would significantly increase the pension liability as detailed by the Fund's consulting Actuary below:

| Change in assumptions – year ended 31 March 2018 | Approx. % increase in liabilities | Approx. monetary value £m |
|---|---|---|
| 0.5% p.a. decrease in discount rate | 9% | 2,053.1 |
| 1 year increase in member life expectancy | 4% | 822.1 |
| 0.5% p.a. increase in salary increase rate | 1% | 210.6 |
| 0.5% p.a. increase in CPI inflation | 8% | 1,836.3 |

**Private Equity**

Uncertainties
Private equity investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions
The total private equity investments in the financial statements are £1,191.0 million. There is a risk that this investment may be under-or overstated in the accounts. Given a tolerance of +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/- £59.6million.

**Note P6 - Actuarial Valuation of the Fund**

A full actuarial valuation of the Fund was made as at 31 March 2016 by the Fund's Actuary, G Muir of Barnett Waddingham LLP. The Actuary has determined the contribution rates with effect from 1 April 2017 to 31 March 2020.
On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £11,569.0 million represented 81% of the funding target of £14,219.0 million at the valuation date. The valuation also showed that a primary rate of contribution of 18.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

In general, the Fund applies a maximum deficit recovery period of 20 years. The aim is to achieve 100% solvency over the period and to provide stability in employer contribution rates.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2017. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2017. For comparison purposes, the figures for the two preceding years are also shown. The minimum payable by the seven councils were certified as follows:

| Future Service Rate (% of pay) plus lump sum (£) | | | | | |
|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
| Birmingham City Council | 12.9% plus £41,870,400 | 13.4% plus £43,724,800 | 15.3% plus £61,800,000 | 16.8% plus £61,800,000 | 18.3% plus £61,500,000 |
| Coventry City Council | 12.7% plus £12,395,000 | 13.1% plus £15,518,000 | 16.8% plus £12,000,000 | 16.8% plus £12,000,000 | 16.8% plus £12,000,000 |
| Dudley MBC | 12.7% plus £9,174,000 | 13.2% plus £10,931,000 | 15.4% plus £9,500,000 | 17.0% plus £9,700,000 | 18.6% plus £9,600,000 |
| Sandwell MBC | 13.1% plus £15,323,200 | 13.1% plus £19,227,200 | 14.7% plus £16,900,00 | 16.2% plus £17,000,000 | 17.7% plus £16,900,000 |
| Solihull MBC | 12.9% | 13.5% | 14.7% plus £5,000,000 | 16.5% plus £5,100,000 | 18.4% plus £5,100,000 |
| Walsall MBC | 13.2% plus £14,835,000 | 13.2% plus £15,518,000 | 15.4% plus £14,000,000 | 16.9% plus £14,800,000 | 18.3% plus £15,000,000 |
| City of Wolverhampton Council | 13.1% plus £9,900,000 | 13.5% plus £10,900,000 | 15.5% plus £13,300,000 | 16.8% plus £14,000,000 | 18.1% plus £14,600,000 |

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

| | 2016 | 2013 |
|---|---|---|
| Rate of return on investments: | 4.7% per annum | 5.6% per annum |
| Rate of pay increases: | 3.9% per annum | 4.35% per annum |
| | | |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension): | 2.6% per annum | 2.6% per annum |

The assets were assessed at market value.

The latest triennial actuarial valuation of the Fund was completed at 31 March 2016 and this was conducted by the Fund's Actuary Barnett Waddingham.Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017. The Actuarial Valuation 2016 report can be found on the Fund's website by following the link http://www.wmpfonline.com/CHttpHandler.ashx?id=12682&p=0

**Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.7% per annum | 2.55% per annum |
| Rate of pay increases | 4.2% per annum* | 3.85% per annum* |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.7% per annum | 2.35% per annum |

* Includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £22,171.5 million. The effect of the changes in actuarial assumptions between 31 March 2017 and 31 March 2018 as described above is to reduce the liabilities by -£810.4 million. Adding interest over the year increases the liabilities by £592.6 million, and allowing for net benefits accrued/paid over the period increases the liabilities by £110.0 million which includes any increase in liabilities arising as a result of early retirements/augmentations.



The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £22,063.7 million.

**Note P7 - Taxation**

1. Value Added Tax

The Fund (as part of the City of Wolverhampton Council) pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

2. Taxation of Overseas Investment Income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.

In some markets, a lower-than-standard tax rate is available, either as a result of a double tax treaty in place between the UK and the investment country (e.g. Poland, Canada, Italy, Sweden) or based on favourable domestic legislation (e.g. Australia, Czech Republic, Singapore). Where this is the case, relief may be granted at source based on documentation already on file (e.g. USA, Belgium, Australia, Finland, France and Norway), or ex post via reclaim forms submitted to the local tax authorities (e.g. Austria, Denmark, Germany, Netherlands, Switzerland and Spain).

There are also markets where relief is not possible - either no double taxation agreements exists (e.g. Brazil, Colombia, Lebanon), or a 'subject to tax' clause prevents UK pension funds from benefiting from treaty rates (e.g. Israel, Malaysia, Portugal). In such cases, the full amount of tax is withheld and is final.

**Note P8 - Contributions Receivable**

Contributions Receivable by Type

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| | **From Employers** | |
| 387.1 | Contributions | 907.6 |
| 0.1 | Augmented Membership | 0.4 |
| 31.9 | Additional Cost of Early Retirement | 34.6 |
| **419.1** | | **942.6** |
| | **From Members** | |
| 110.1 | Basic Contributions | 96.8 |
| 0.6 | Additional Contributions | 0.6 |
| **110.7** | | **97.4** |
| | | |
| **529.8** | **Total Contributions** | **1,040.0** |

Following the 2016 valuation, some employers chose to pay the full three-year past service deficit as a lump sum in 2017/18. The additional contributions above represent the purchase of added membership or additional benefits under the Pension Scheme.

Contributions Receivable by Type of Employer

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| 33.3 | Administering Authority | 56.8 |
| 470.5 | Other Scheduled Employers | 947.0 |
| 26.0 | Admitted Employers | 36.2 |
| **529.8** | **Total** | **1,040.0** |

**Note P9 - Transfers In**

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| 16.6 | Individual transfers in from other schemes | 25.6 |

Note P10 - Other Income

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| | Benefits Recharged to Employers | |
| 8.2 | Compensatory Added Years | 7.8 |
| 6.9 | Pensions Increases | 6.7 |
| **15.1** | **Total** | **14.5** |

Note P11 - Benefits Payable

Benefits Payable by Type

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| | **Pensions** | |
| 390.6 | Retirement Pensions | 410.3 |
| 28.1 | Widows' Pensions | 28.5 |
| 0.9 | Children's' Pensions | 1.0 |
| 4.6 | Widowers' Pensions | 5.1 |
| 0.1 | Ex-Spouse | 0.2 |
| 0.2 | Equivalent Pension Benefits | 0.2 |
| 0.1 | Co-habiting Partners | 0.2 |
| **424.6** | **Total Pensions** | **445.5** |
| | | |
| | **Lump Sum Benefits** | |
| 94.1 | Retiring Allowances | 98.8 |
| 12.6 | Death Grants | 11.6 |
| **106.7** | **Total Lump Sum Benefits** | **110.4** |
| | | |
| **531.3** | **Total Benefits Payable** | **555.9** |

Benefits Payable by Type of Employer

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| 45.7 | Administering Authority | 45.0 |
| 448.6 | Other Scheduled Employers | 469.7 |
| 37.0 | Admitted Employers | 41.2 |
| **531.3** | **Total** | **555.9** |

Note P12 - Payments To and On Account of Leavers

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| 23.0 | Individual Transfers | 36.4 |
| - | Group Transfers | - |
| 1.6 | Refunds of Contributions | 1.7 |
| 0.5 | State Scheme Premiums | 0.1 |
| 2.6 | Bulk Pension Transfer Increases | 2.8 |
| **27.7** | **Total** | **41.0** |

Note P13 - Management Expenses

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| 3.3 | Administrative costs | 3.8 |
| 65.2 | Investment management expenses, comprising: | 58.1 |
| 48.4 | - Management Fees | 43.8 |
| 14.5 | - Performance-Related Fees | 11.4 |
| 1.8 | - Transaction Costs | 2.3 |
| 0.5 | - Custody Fees | 0.6 |
| 2.0 | Oversight and governance costs | 2.8 |
| **71.0** | **Total Management Costs** | **65.3** |

Performance related fees are negotiated with a number of managers. Included in external management of investments are performance related fees of £11.4million in 2017/18 and £14.5 million in 2016/17.

The guidance requires that external investment management fees that are deducted from asset values (rather than invoiced and paid directly) are shown gross. Wherever possible, there figures are based on actual costs disclosed by the manager; where actual costs were not available, best estimates have been made using other available information.

Note P14 - Investment Income

| 2016/17 £m | | 2017/18 £m |
|---|---|---|
| | **Dividends and Interest** | |
| | Bonds | |
| 8.1 | UK Private Sector – Quoted | 7.7 |
| | Equities | |
| 45.2 | UK | 58.0 |
| 118.8 | Overseas | 142.9 |
| | Pooled Investment Vehicles | |
| 9.4 | UK | 14.9 |
| 0.5 | Overseas Equities | 0.3 |
| 3.0 | Interest on Cash Deposits | 2.9 |
| 2.5 | Stocklending | 2.9 |
| (0.1) | UK Tax, Irrecoverable | (0.1) |
| (7.0) | Overseas Taxation | (7.6) |
| 1.7 | Other Investment Income | 0.9 |
| **182.1** | **Total Dividends and Interest** | **222.8** |
| | | |
| 36.6 | Property Management Income | 43.1 |
| (12.9) | Property Management Expenses | (8.2) |
| **23.7** | **Total Property Management** | **34.9** |
| | | |
| **205.8** | **Total Investment Income** | **257.7** |

**Stocklending**
The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £353.0M (2017: £512.6M) in exchange for which the custodian held collateral worth £394.8M (2017: £547.6M) representing 112% of stock lent. Collateral consists of acceptable securities and government debt.

During the period the stock is on loan, the voting rights on the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

**Other Investment Income**
Other investment income includes the following; Class action income and tax refunds.

Note P15 - Net Investment Assets

| 31 March 2017 £m Restated | | 31 March 2018 £m |
|---|---|---|
| | **Bonds** | |
| 192.4 | UK Companies – Segregated (external) | 188.5 |
| **192.4** | | **188.5** |
| | **UK Equities** | |
| 1,368.4 | Quoted | 1,492.2 |
| **1,368.4** | | **1,492.2** |
| | **Overseas Equities** | |
| 4,265.7 | Quoted | 4,627.8 |
| 1,654.6 | Quoted – Segregated (external) | 1,715.7 |
| **5,920.3** | | **6,343.5** |
| | **Pooled Investment Vehicles** | |
| | **Managed Funds** | |
| 554.2 | UK Fixed Interest | 563.1 |
| 726.8 | Other Fixed Interest | 820.1 |
| 867.0 | UK Quoted, Index Linked | 872.3 |
| - | Overseas Equities | - |
| 382.7 | Infrastructure | 610.0 |
| 1,355.1 | Private Equity | 1,191.0 |
| 549.1 | UK Absolute Returns | 553.2 |
| 178.8 | Overseas Absolute Returns | 48.3 |
| 47.2 | UK Property | 51.4 |
| 161.5 | Foreign Property | 170.6 |
| | | |
| | **Unit Trusts** | |
| 154.2 | UK Quoted Equities | 162.1 |
| 591.0 | Overseas Equities | 302.7 |
| 6.8 | Overseas Property | 7.1 |
| **5,574.4** | | **5,351.9** |
| | **Property** | |
| 703.1 | UK Freehold | 806.8 |
| 53.3 | UK Leasehold* | 56.0 |
| **756.4** | | **862.8** |
| | | |
| | **Derivative contracts** | |
| - | Futures | - |
| - | Forward currency contracts | 44.9 |
| | | **44.9** |

| | | |
|---|---|---|
| | **Foreign Currency Holdings** | |
| 1.0 | Australian Dollars | 2.2 |
| 0.6 | Canadian Dollars | 0.5 |
| 0.6 | Czech Koruna | 0.5 |
| 0.8 | Danish Kroner | 0.7 |
| 3.4 | Euro | 11.5 |
| 0.7 | Hong Kong Dollars | 0.6 |
| 0.4 | Hungarian Forints | 0.6 |
| 1.1 | Japanese Yen | 1.1 |
| 0.6 | New Zealand Dollars | 0.6 |
| - | Norwegian Kroner | 0.6 |
| 0.6 | Polish Zloty | 0.5 |
| 1.0 | Singapore Dollars | 0.6 |
| 0.5 | Swedish Kroner | 3.5 |
| 0.7 | Swiss Francs | 4.1 |
| 0.5 | Turkish Lira | 0.6 |
| 99.3 | United States Dollars | 97.8 |
| **111.8** | | **126.0** |
| | **Cash Deposits** | |
| 304.1 | UK | 830.1 |
| | | |
| | **Other Investments** | |
| 0.2 | Broker Balances | 0.4 |
| | | |
| 24.7 | Outstanding Dividend Entitlement and Recoverable With-holding Tax | 45.2 |
| **14,252.7** | **Total Net Investment Assets** | **15,285.5** |

* All leasehold properties are held on long leases

The restatement of 2016/17 is to reflect an improved analysis of unquoted equities into private equity and infrastructure.
Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

The following investment represents more than 5% of the net assets of the scheme:

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Market Value £m | % of total Market Value % | Security | Market Value £m | % of total Market Value % |
| 769.3 | 5.4 | Legal & General - All Stocks Index-Linked Gilts Fund | 773.9 | 5.1 |

The proportion of the market value of investment assets managed in-house and by each external manager at the year-end is set out below.

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Market Value £m | % of total Market Value % | | Market Value £m | % of total Market Value % |
| 6,810.2 | 47.9 | In-house | 7,984.2 | 52.4 |
| 42.9 | 0.3 | Managers: UK Quoted | 162.1 | 1.1 |
| 1,168.6 | 8.2 | Managers: Emerging Markets | 1,232.0 | 8.1 |
| 1,077.0 | 7.6 | Managers: Global Equities | 786.4 | 5.2 |
| 2,340.4 | 16.4 | Managers: Fixed Interest | 2,444.0 | 16.0 |
| 323.1 | 2.3 | Managers: Indirect Property | 229.1 | 1.5 |
| 394.3 | 2.8 | Managers: Infrastructure Funds | 610.0 | 4.0 |
| 727.9 | 5.1 | Managers: Absolute Return | 601.5 | 3.9 |
| 1,343.6 | 9.4 | Managers: Private Equity | 1,191.0 | 7.8 |
| **14,228.0** | **100.0** | | **15,240.3** | **100.0** |
| 24.7 | | Outstanding Dividend Entitlement and Recoverable With-holding Tax | 45.2 | |
| **14,252.7** | | **Total Investment Assets** | **15,285.5** | |



ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

During the year the Fund approved the use of both forward foreign currency hedging and exchange traded futures contracts for the purpose of hedging exposures to reduce risk in the fund and to gain exposure to an assets more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the fund and the various investment managers.

a) Futures

Following the actuarial valuation in 2016 and changes to the Strategic Investment Allocation Benchmarks (SIAB), the Fund received significant levels of employer contributions during April 2017 of £800m and whilst looking to deploy the cash in to income generating assets, it was recognised that this would take time to implement. The pension fund committee did not want this cash to be 'out of the market' and so bought index-based futures contracts which had an underlying economic value broadly equivalent to the cash held in anticipation of being able to find suitable income generating assets over the following months. The use of futures enables the Fund to invest cash in higher returning assets at low cost with the flexibility to switch the money cheaply into the income assets that the Fund is targeting in the medium term strategic asset allocation. The Fund will continue to use futures to manage transitions, ensuring efficient portfolio management and potentially manage active currency risk not covered by the passive hedging strategy below. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward foreign currency

To maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock. To reduce the volatility associated with fluctuating currency rates, the fund has put a passive currency programme in place. The Fund commenced its currency hedging programme in September following approval by this Committee to amend the Strategic Investment Allocation Benchmark to reflect the passive currency management programme. The passive currency hedging programme was put in place to protect returns in sterling terms and reduce currency risk following positive gains from sterling weakness during the prior financial year. The objective of the currency hedge is to put in place a 50% hedge based on the strategic weight of each region, with a rebalancing taking place on a monthly basis to reflect changing market values.

Open forward currency contracts

| Settlement | Currency Bought | Local value m | Currency Sold | Local value m | Asset value £m | Liability value £m |
|---|---|---|---|---|---|---|
| One to six months | GBP | 715.9 | EUR | 800.9 | 12 | 0 |
| One to six months | GBP | 359.7 | JPY | 52636.5 | 6.2 | 0 |
| One to six months | GBP | 1993.4 | USD | 2767.7 | 26.7 | 0 |
| Open forward currency contracts at 31 March 2018 | | | | | 44.9 | |
| Net forward currency contracts at 31 March 2018 | | | | | 44.9 | |

Prior year comparative

| | | |
|---|---|---|
| Open forward currency contracts at 31 March 2016 | 0 | 0 |
| Net forward currency contracts at 31 March 2016 | 0 | 0 |

**Note P16 - Investment Market Value Movements Analysis**

| | Value at 31 March 2017 £m | Purchases at Cost £m | Sales at Book Value £m | Change in Market Value £m | Value at 31 March 2018 £m |
|---|---|---|---|---|---|
| Bonds | 192.4 | - | (0.2) | (3.7) | 188.5 |
| UK Equities | 1,368.4 | 327.2 | (134.2) | (69.2) | 1,492.2 |
| Overseas Equities | 5,920.3 | 983.1 | (516.5) | (43.4) | 6,343.5 |
| Pooled Investment Vehicles | 5,574.4 | 1,797.5 | (1,698.0) | (322.0) | 5,351.9 |
| Property | 756.4 | 75.6 | (27.1) | 57.9 | 862.8 |
| | **13,811.9** | **3,183.4** | **(2,376.0)** | **(380.4)** | **14,238.9** |
| | | | | | |
| Derivative Contracts | | | | | |
| Futures | - | 1,394.5 | (1,413.0) | 18.5 | - |
| Forward Foreign Exchange | - | 15,453.6 | (15,457.1) | 48.4 | 44.9 |
| | **-** | **16,848.1** | **(16,870.1)** | **66.9** | **44.9** |
| | | | | | |
| Broker Balances | 0.2 | | | | 0.4 |
| Outstanding dividend entitlement and recoverable With-holding tax | 24.7 | | | | 45.2 |
| Foreign Currency | 111.8 | | | | 126.0 |
| Cash Deposits | 304.1 | | | | 830.1 |
| **Total Investments** | **14,252.7** | **20,031.5** | **(19,246.1)** | **(313.5)** | **15,285.5** |

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £616.3 million which represents profit realised on sale of the Fund's assets.

Purchases also include transfers in of investments, take-over of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £2.3 million (2016/17: £1.8 million). In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not seperately provided to the scheme.

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 1.8 | Equities - Overseas Quoted | 2.3 |
| **1.8** | | **2.3** |

The volatility of investment markets is an ever-present and longstanding feature of pension fund management and valuations may vary, either up or down, throughout each day when exchanges are open.

The change in the value of investments during 2016/17 is set out below:

| | Value at 30 March 2016 £m | Purchases at Cost £m | Sales at Book Value £m | Change in Market Value £m | Value at 31 March 2017 £m |
|---|---|---|---|---|---|
| Bonds | 180.1 | - | (0.2) | 12.5 | 192.4 |
| UK Equities | 1,036.2 | 227.7 | (30.1) | 134.6 | 1,368.4 |
| Overseas Equities | 4,137.2 | 717.8 | (170.9) | 1,236.2 | 5,920.3 |
| Pooled Investment Vehicles | 4,921.5 | 496.6 | (566.8) | 723.1 | 5,574.4 |
| Property | 694.5 | 68.7 | (15.6) | 8.8 | 756.4 |
| | **10,969.5** | **1,510.8** | **(783.6)** | **2,115.2** | **13,811.9** |
| Broker Balances | (2.6) | | | | 0.2 |
| Outstanding dividend entitlement and recoverable With-holding tax | 35.7 | | | | 24.7 |
| Foreign Currency | 171.1 | | | | 111.8 |
| Cash Deposits | 459.8 | | | | 304.1 |
| **Total Investments** | **11,633.5** | | | | **14,252.7** |

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £381.7 million which respresents profit realised on sale of the Fund's assets.

**Note P17 - Fair Value - Basis Of Valuation**

The basis of the valuation of each class of investment assets is detailed below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Asset Type | Valuation level | Basis of valuation | Observable and Unobservable inputs | Key sensitivity |
|---|---|---|---|---|
| Market quoted investments | 1 | Published bid market price ruling on 31 March 2018. | N/A | N/A |
| Quoted bonds | 1 | Market bid price based on current yields | N/A | N/A |
| Futures | 1 | Published exhnage prices at 31 March 18 | N/A | N/A |
| Unquoted bonds | 2 | Averageof broker prices | N/A | N/A |
| Pooled Investments- overseas unit trusts and property funds | 2 | PIV are stated at the bid price quoted or the closing single market prices. | NAV based pricing set on a forward pricing basis | N/A |
| Forward foreign exchange derivatives | 2 | Market forward exchange rates at 31 March 18 | Exchange rate risk | N/A |
| Freehold and leasehold properties | 3 | Valued at fair value at the year-end using the investment valuatiuon reports of Knight Frank LLP. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Savills PLC at the year end. | Existing lease terms and rentals, independent market research, tenant covenannt strength, estimated vacancy levels, estimated rental growth, discount rate. | Significant changes in rental growth, vacancy levels or discount rate could affect valuations |
| Unquoted equity (includes Private Equity, Infrastructure and Absolute Return/Diversified Growth Funds) | 3 | Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. | EBITDA multiple, revenue multiple, discount for lack of marketability. | Could be affected by material events occuring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |

**Sensitivity of level 3 assets**

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges, and has set out below the consequent potential impact on the closing value of investments at 31 March 2018.

| Level 3 assets | Valuation range | Valuation at 31 March 2018 | Valuation Increase | Valuation Decrease |
|---|---|---|---|---|
| | | £m | £m | £m |
| Freehold and Leasehold Property | 14.3 | 862.8 | 986.2 | 739.4 |
| Private Equity | 28.3 | 1191 | 1528.1 | 853.9 |
| Infrastructure | 20.1 | 610 | 732.6 | 487.4 |
| Absolute Return/Diversified Growth | 12.6 | 601.5 | 677.3 | 525.7 |
| Total | | 3265.3 | 3924.2 | 2,606.5 |

**17 i) Fair Value Hierarchy**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unqouted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in the determining appropriate assumptions.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained fron the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

| Value at 31 March 2018 | Quoted Market Price Level 1 £m | Using Observable Inputs Level 2 £m | With Significant Unobservable Inputs Level 3 £m | Total £m |
|---|---|---|---|---|
| Financial Assets | | | | |
| Financial Assets at Fair Value Through Profit and Loss | 9,172.8 | 1,800.8 | 2,402.5 | 13,376.1 |
| Non- Financial Assets at Fair Value Through Profit and Loss | | | 862.8 | 862.8 |
| Net Financial Assets | 9,172.8 | 1,800.8 | 3,265.3 | 14,238.9 |

| Value at 31 March 2017 | Quoted Market Price Level 1 £m | Using Observable Inputs Level 2 £m | With Significant Unobservable Inputs Level 3 £m | Total £m (Re-stated) |
|---|---|---|---|---|
| Financial Assets | | | | |
| Financial Assets at Fair Value Through Profit and Loss | 8,901.0 | 1,688.7 | 2,465.8 | 13,055.5 |
| Non- Financial Assets at Fair Value Through Profit and Loss | | | 756.4 | 756.4 |
| Net Financial Assets | 8,901.0 | 1,688.7 | 3,222.2 | 13,811.9 |

Note 17 ii) - Reconciliation of Fair Value Measurements Within Level 3

| Period 2017/18 | Market Value 01 April 2017 £'000 | Transfers into Level 3 | Transfers out of Level 3 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Unrealised gains / losses £'000 | Realised gains/losses £'000 | Market Value 31 March 2018 £'000 |
|---|---|---|---|---|---|---|---|---|
| | | - | | | | | | |
| Freehold and Leasehold Property | 756.4 | - | - | 75.6 | -18.3 | 56.6 | -7.5 | 862.8 |
| Private Equity | 1,343.6 | - | - | 129.7 | -333.8 | -71.3 | 122.8 | 1191.0 |
| Infrastructure | 394.3 | - | - | 263.3 | -62.3 | 1.4 | 13.3 | 610.0 |
| Absolute Return/Diversified Growth | 727.9 | - | - | 463.0 | -487.7 | -127.5 | 25.8 | 601.5 |
| Total | 3,222.2 | 0.0 | 0.0 | 931.6 | -902.1 | -140.8 | 154.4 | 3265.3 |

**Note P18 - Investment Capital Commitments**

Investment commitments at the end of the financial year in respect of future payments were:

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 831.7 | Non-publicly quoted equities and infrastructure | 907.6 |
| 122.1 | Property | 107.1 |
| **953.8** | | **1,014.7** |

These amounts relate to outstanding commitments due on funds held in the private equity, fixed interest, absolute return and alternative investment portfolios.

**Note P19 - Other Long-Term Assets**

This balance is in respect of amounts due from employers to meet early retirement costs, for which the Fund has agreed to those employers deferring payment over a number of years. These are amounts due after the following financial year (with the amounts due next year reported in Current Assets), and can be analysed as follows.

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| - | Administering Authority | - |
| 16.2 | Other Local Authorities | 25.1 |
| **16.2** | **Total** | **25.1** |

**Note P20 - Current Assets**

| | | |
|---|---|---|
| | **Receivables and prepayments** | |
| | Contributions Receivable | |
| 18.3 | - Employers | 210.1 |
| 5.8 | - Members | 20.9 |
| 25.1 | Other Receivables | 21.0 |
| **49.2** | **Total Receivables and Prepayments** | **252.0** |
| 9.0 | Cash | (3.3) |
| **58.2** | **Total Current Assets** | **248.7** |

Note: Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it was calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in Other Receivables at 31 March 2018 is £9.6 million (31 March 2017: £9.6 million).

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| | **Analysis of Receivables** | |
| 3.1 | Administering Authority | 16.7 |
| 15.7 | Other Local Authorities | 185.7 |
| 30.4 | Other Entities and Individuals | 49.6 |
| **49.2** | **Total** | **252.0** |

Note P21 - Current Liabilities

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| | **Payables and Receipts In Advance** | |
| - | Pensions and Lump Sum Benefits | - |
| (32.8) | Other Payables | (310.8) |
| **(32.8)** | **Total** | **(310.8)** |

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| | **Analysis of Payables** | |
| (3.6) | Central Government Bodies | (2.8) |
| (4.6) | Administering Authority | (3.1) |
| (5.7) | Other Local Authorities | (263.3) |
| (18.9) | Other Entities and Individuals | (41.6) |
| **(32.8)** | **Total** | **(310.8)** |

**Note P22 - Additional Voluntary Contributions**

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC

The contributions are not included within the fund accounts, in line with regulation 4 (2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016. The table below shows the activity for each AVC provider in the year.

| 31 March 2017 | | | 31 March 2018 | |
|---|---|---|---|---|
| Equitable Life £m | Prudential £m | | Equitable Life £m | Prudential £m |
| 1.9 | 37.4 | **Opening value of the fund** | 1.9 | 38.7 |
| - | 6.8 | Income | 0.1 | 6.4 |
| (0.2) | (8.1) | Expenditure | (0.3) | (8.5) |
| 0.2 | 2.6 | Change in market value | 0.1 | 1.2 |
| 1.9 | 38.7 | **Closing value of the fund** | 1.8 | 37.8 |



**Note P23 Post Year End Transactions**

There were no post year end transactions that require disclosure in the accounts.

**Note P24 Financial Instruments**

**Net Gains and Losses on Financial Instruments**

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| | **Financial Assets** | |
| (2,106.4) | Fair value through profit and loss | 419.8 |
| **(2,106.4)** | **Total** | **419.8** |

**Classification of Financial Instruments**

The following table analyses the carrying amounts of financial instruments by category. No financial instruments were reclassified during the accounting period.

| | 2016/17 | 2017/18 |
|---|---|---|
| **Financial Assets** | | |
| Financial Assets at Fair Value Through Profit and Loss | 13,055.5 | 13,376.1 |
| Loans and Receivables | 515.3 | 355.9 |
| Financial Liabilities at Amortised Cost | (32.8) | (310.8) |
| **Net Financial Assets** | **13,538.0** | **13,421.2** |

**Note P25 - The Nature and Extent of Risks Arising From Financial Instruments**

**Risk Management**

The Fund's activities expose it to a variety of financial risks including:

| | |
|---|---|
| Investment Risk - | the possibility that the Fund will not receive the expected returns. |
| Credit Risk - | the possibility that the other parties might fail to pay amounts due to the Fund. |
| Liquidity Risk - | the possibility that the Fund might not have funds available to meet its commitments to make payments. |
| Market Risk - | the possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk. |

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Fund are as follows:

**Investment Risk**

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted a 86% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments. The remaining 14% is allocated to stabilising assets, such as UK Government bonds or gilts, both index linked and conventional.

Risks in return-seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return-seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

**Counterparty Risk**

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

**Credit Risk**

The Fund's deposits with financial institutions as at 31 March 2018 totalled £832.9 million in respect of temporary loans and treasury management instruments (31 March 2017: £287.6 million). The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2018 is shown overleaf:

| Credit Rating Sensitivity Analysis | | | |
|---|---|---|---|
| **Summary** | **Long Term Fitch Rating*** | **Value at 31 March 2017 £m** | **Value at 31 March 2018 £m** |
| **Money Market Funds** | | | |
| HSBC Sterling Liquidity Fund | Aaa-mf | - | 100.0 |
| LGIM Liquidity Fund | Aaa-mf | 115.0 | 230.0 |
| Insight Liquidity Fund | AAAmmf | - | 250.0 |
| Aberdeen Liquidity Fund (Lux) | Aaa-mf | - | 153.2 |
| | | | |
| **Short-Term Deposits** | | | |
| Principality Building Society | BBB+ | 25.0 | 25.0 |
| Nottingham Building Society | Baa1 | 15.0 | 10.0 |
| Leeds Building Society | A- | 20.0 | - |
| Barclays | A | 35.0 | - |
| Skipton Building Society | A- | 25.0 | - |
| Coventry Building Society | A | 10.0 | 15.0 |
| Northamptonshire County Council | | 10.0 | - |
| Mid Suffolk County Council | | 5.0 | - |
| Swindon City Council | | 8.0 | - |
| The City of Liverpool Council | | - | 10.0 |
| London Borough of Barking & Dagenham | | - | 10.0 |
| Reading Borough Council | | - | 10.0 |
| London Borough of Haringey | | - | 10.0 |
| **Bank Deposit Accounts** | | | |
| NatWest Corporate Cash Manager Account | | | |
| GBP Current Accounts | AA- | 9.1 | 2.9 |
| HSBC Global Active | AA- | 10.5 | 4.0 |
| **Total** | | **287.6** | **830.1** |

** Moody's rating used if no Fitch rating available*

**Liquidity Risk**

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

**Foreign Exchange Risk**

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

**Securities Lending**

As at 31 March 2018, £353.0 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender (31 March 2017: £512.6 million). The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £394.8 million, giving a margin of 11.8% (2016/17, £547.6 million, margin of 6.8%).

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Net income from stocklending amounted to £2.9 million during the year (2016/17: £2.5 million) and is detailed in note 12 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

**Reputational Risk**

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

**Other price risk - sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period (overleaf):

Market Risk - Other Price Risk

| Asset Type | | Value at 31 March 2018 £m | % Change | Value on Increase £m | Value on Decrease £m |
|---|---|---|---|---|---|
| UK equities | | 1,654.3 | 16.8% | 1,932.2 | 1,376.4 |
| Global equities (ex UK) | | 6,646.2 | 17.9% | 7,835.9 | 5,456.5 |
| Property | | 1,091.9 | 14.3% | 1,248.0 | 935.8 |
| Fixed Interest* | | 2,444.0 | 8.3% | 2,646.9 | 2,241.1 |
| Private Equity | | 1,191.0 | 28.3% | 1,528.1 | 853.9 |
| Alternatives** | | 1,211.5 | 16.2% | 1,407.8 | 1,015.2 |
| **Total Fund (See Note Below)** | | **14,238.9** | | **16,598.9** | **11,878.9** |

*includes exposure to Forestry (£68.6m)
**includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.
***includes exposure to absolute return (£601.5m) and infrastructure (£610.0m)
The total Fund volatility taking into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory is 11.5%. On this basis, the total value on increase is £15,876.4 million, and the total value on decrease is £12,601.4 million. Due to the approach taken to determine the total Fund volatility (in which the beneficial impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility, which is lower than the sum of the monetary impact for each asset class.

**Currency Risk - Sensitivity Analysis**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK. The following tables summarise the Fund's currency exposure as at 31 March 2018:

**Currency Risk (by asset class)**

| Asset Type | | Value at 31 March 2018 £ | % Change | Increase £ | Decrease £ |
|---|---|---|---|---|---|
| Global Equities (ex UK) | | 6,646.2 | 10.0% | 7,310.8 | 5,981.6 |
| Private Equity | | 1,191.0 | 10.0% | 1,310.1 | 1,071.9 |
| Fixed Interest | | 2,444.0 | 10.0% | 2,688.4 | 2,199.6 |
| Alternatives | | 1,211.5 | 10.0% | 1,332.7 | 1,090.4 |
| Property Funds | | 229.1 | 10.0% | 252.0 | 206.2 |
| Liquid Assets | | 126.0 | 10.0% | 138.6 | 113.4 |
| **Total** | | **11,847.8** | | **13,032.6** | **10,663.1** |

**Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

**Interest rate risk - Sensitivity analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points (BPS) per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

| Asset Type | Carrying amount as at 31 March 2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100BPS | -100BPS |
| | £m | £m | £m |
| Index-linked Gilts | 872.3 | (183.2) | 183.2 |
| Gilts | 166.6 | (17.3) | 17.3 |
| Corporate Bonds | 585.1 | (50.1) | 50.1 |
| **Total** | **1,624.0** | **(250.6)** | **250.6** |

*BPS - basis points

Note P26 - Impairment for Bad and Doubtful Debts

The following additions and write offs of pension payments were reported in this financial year, in line with the Fund's policy:

| Additions Analysis | | |
|---|---|---|
| **Individual Value** | **Number** | **Total £** |
| Less than £100 | 21 | 626.07 |
| £100 - £500 | 2 | 210.27 |
| Over £500 | 0 | 0.00 |
| TOTAL | **23** | **836.34** |

| Write off Analysis | | |
|---|---|---|
| **Individual Value** | **Number** | **Total £** |
| Less than £100 | 20 | 1,012.66 |
| £100 - £500 | 72 | 17,121.04 |
| Over £500 | 20 | 28,873.56 |
| TOTAL | **112** | **47,007.26** |

**Note P27 - Related Parties**

Pensions administration and certain investment functions are performed by the City of Wolverhampton Council, and the costs shown in Note P13 above are recharged to the Fund. Contributions of £57.3 million were receivable from the City of Wolverhampton Council for 2017/18 (2016/17: £33.3 million). Balances owed by and to the council at the year end are shown in Notes P19, P20 and P21.

Pensions Committee

Eight members of the Pensions Committee are also members of the Fund (including one substitute member), as set out below:

Pensioner: Councillors Inston, Page, Thompson, Chambers and Mutton

Active: Councillors Bagri, Brookfield, Hevican and T Singh

Each member of the Pensions Committee is required to declare any interests relevant to the matters being discussed at each meeting.

There are five employing bodies of the Fund in which a member of the Committee has declared an interest for 2017/18. Contributions from each of these are set out below.



| Contributions Receivable 2016/17 £000 | | Contributions Receivable £000 |
|---|---|---|
| 3,331 | West Midlands Fire and Rescue Service | 5,730 |
| 4,211 | Wolverhampton Homes | 4,497 |
| 20 | Kingswood Trust | 18 |
| 161 | Wolverhampton Girls High School | 174 |

LGPS Central

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by eight administering authorities participating in the Pool. Each authority has one Class A voting share in LGPS Central.

No services were provided by LGPS Central Ltd during 17-18 as operation only commenced in April 2018.

£1,315,000 has been invested in Class B shares by each administering authority, and £685,000 in a loan to LGPS Central by seven of the authorities during the year. WMPF has invested in £685,000 of Class C shares. These are the balances at year end.

£777,876 has been spent by WMPF on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then £ 680,642 recharged equally to the administering authorities. A balance of £97,234 remains with WMPF reflecting the cost of setting up the enterprise to the end of March 18.

LGPS Central is an admitted body, and employs staff that are active members of the WMPF. As a result LGPS central made contributions to the fund on behalf of staff totalling £8,582 in 2017/18.

Key Management Personnel

The Fund's current senior management comprises six individuals: the Director of Pensions, Assistant Director (Finance & Investments), the Head of Operations, the Head of Pensions, the Head of Governance and Corporate Services and the Head of Finance. The full costs for the year include transitional costs from the previous senoir management team to the current for the posts: Strategic Director of Pensions, Chief Investments Officer and Assistant Director (Acturarial & Pensions). The total salary paid to the senior management team in 2017/18 was £481,000 (2014/15: £536,000). In addition to this, employer's pension contributions of £130,000 (2015/16: £125,000) were met from the Fund in respect of these individuals.

**Note P28 - Events after the Reporting Date**

LGPS Central

Following guidance from government, local authority investment pools have been created to bring together the investment assets of local authority pension funds into 8 Investment Pools. WMPF is a shareholder in LGPS Central. The LGPS Central Pool went live on 1st April 2018 in line with government regulations following FCA authorisation earlier in the year. The first 3 sub-funds were launched covering passive internal assets and on 3rd April 2018 assets to the value of £4.886bn and cash of £247m were transitioned from the West Midlands Pension Fund to LGPS Central sub-funds, following approval from the Pensions Committee at its meeting on 21 March 2018. WMPF Investment staff were transferred under TUPE, with some secondment arrangements put in place to cover an initial period to continue to support WMPF on a temporary basis. In addition, WMPF has agreed contracts with LGPS Central Ltd to provide a number of advisory, advisory and execution and execution only mandates covering WMPF assets.

Work is underway to develop further LGPS Central Ltd sub-funds in collaboration with Partner Funds and LGPS Central to transition further assets, subject to approval of the Pensions Committee and the suitability of the LGPS Central Ltd sub-funds to meet the strategic asset allocation requirements of WMPF.

# Annual Governance Statement 2017-2018

*Scope of Responsibility*

The City of Wolverhampton 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.

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, which includes arrangements for the management of risk.

The Council has a Local Code of Corporate Governance, which is being revised in line with the latest principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The new principles have been adopted in this statement.

The Council is also responsible for the strategic management and administration of the *West Midlands Pension Fund* with the Council's Managing Director, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting both the members of the Pensions Committee and the Local Pension Board in their role.

*Wolverhampton Homes* is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.

*The Purpose of the Governance Framework*

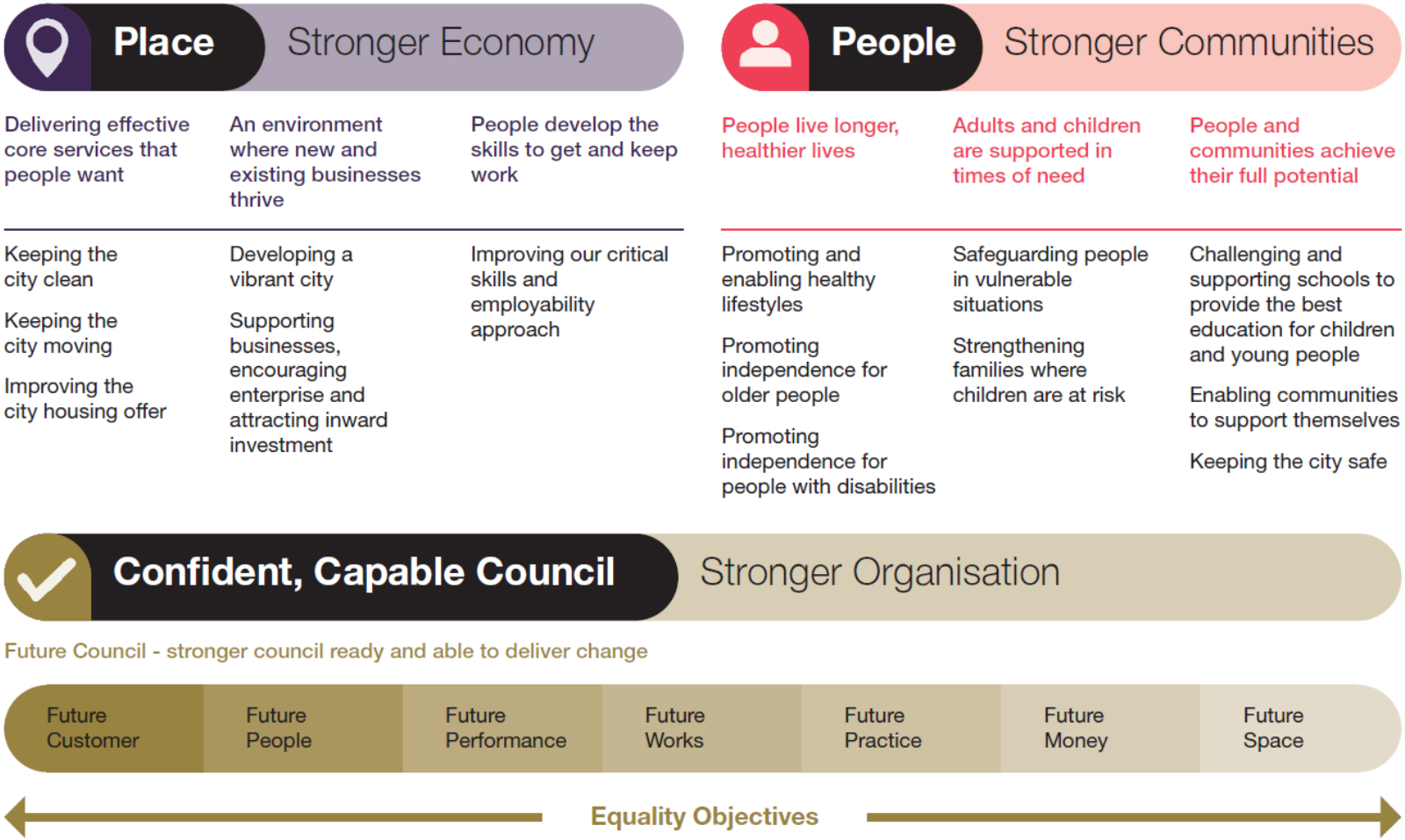
The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They 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 systems of risk management and internal control are 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.

The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the annual report and statement of accounts.

The Council has a Corporate Plan with the following aims and themes




These are underpinned by the governance environment. This environment is consistent with the core principles of the new CIPFA/ SOLACE framework. In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

# 8. ANNUAL GOVERNANCE STATEMENT

The key elements of the systems and processes that comprise the Council's governance framework, and where assurance against these is required, are described below.

| Core principles of the CIPFA/ SOLACE framework | Assurances required | Governance framework providing assurance | Review of Effectiveness | Issues identified |
|---|---|---|---|---|
| • Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.<br>• Ensuring openness and comprehensive stakeholder engagement.<br>• Defining outcomes in terms of sustainable economic, social, and environmental benefits.<br>• Determining the interventions necessary to optimise the achievement of the intended outcomes.<br>• Developing the entity's capacity, including the capability of its leadership and the individuals within it.<br>• Managing risks and performance through robust internal control and strong public financial management.<br>• Implementing good practices in transparency, reporting, and audit to deliver effective accountability. | ← | | → | |
| | • Delivery and communication of an agreed corporate plan<br>• Quality services are delivered efficiently and effectively<br>• Clearly defined roles and functions<br>• Management of risk<br>• Effectiveness of internal controls<br>• Compliance with laws, regulation, internal policies and procedures<br>• Value for money and efficient management of resources<br>• High standards of conduct and behaviour<br>• Public accountability<br>• Published information is accurate and reliable<br>• Implementation of previous governance issues | • The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer)<br>• Council, Cabinet and Committees<br>• Audit and Risk Committee<br>• Scrutiny function<br>• Standards Committee<br>• Internal and External Audit<br>• Strategic Executive Board<br>• Wider Leadership Team<br>• Directors Assurance Statements<br>• Corporate and Business plans<br>• Medium Term Financial Strategy<br>• Corporate Risk Register and Assurance Map<br>• Codes of Conduct<br>• Business Planning and Performance Management Framework<br>• Whistleblowing and other anti-fraud related policies<br>• Complaints System<br>• Financial Procedures Rules<br>• Contract Procedure Rules | • External Audit Report to Those Charged with Governance (ISA 260) Report – unqualified opinion<br>• Annual Internal Audit Report - unqualified opinion<br>• Annual Audit and Risk Committee Report to Council<br>• 2017 LGA Corporate Peer Review – positive outcome<br>• 2017 Ofsted inspection of Children's Services – judged "Good".<br>• Annual Statement of Accounts<br>• Local Government Ombudsman Report<br>• Scrutiny reviews<br>• Annual Governance Statement – including the follow up of previous year issues | • Medium Term Financial Strategy<br>• Procurement, Contract Management and Monitoring<br>• Corporate Landlord<br>• West Midlands Combined Authority<br>• Cyber Security<br>• Project Governance<br>• General Data Protection Regulations<br>• Arm's Length Management Organisation Housing Partnership<br>• Tenant Management Organisations<br>• Residential Site Management<br>• Housing Policies |

| | | | | |
|---|---|---|---|---|
| | | • modern.gov (the council's committee management information system) | | |

*The Review of Effectiveness*

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of Councillors and senior officers within the Council who have responsibility for the development and maintenance of the governance framework including Internal Audit's annual report, the Scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates. The above table helps illustrate this framework, where assurance is provided and the processes through which the effectiveness of these arrangements are reviewed.



*Opinion for 2017-2018*

The review of effectiveness has found the arrangements for the governance framework to be fit for purpose.

A key component of the review is through the work of the Council's Audit and Risk Committee and during the year the Committee continued with its new initiatives, helping to ensure that the Council had a modern, effective and risk focussed Committee. During the year they:

- Maintained the focus of the Committee on the Council's risk management arrangements, gaining an increased assurance that the Council was managing its risks well. This also involved the Committee 'calling-in' certain risks and their risk owners, for a more detailed review.
- Hosted a regional Audit Committee Forum in partnership with top accountancy firm Grant Thornton UK LLP. This event saw councillors and Audit Committee members from Local Authorities come together to discuss key themes and their governance responsibilities.
- Maintained a strong working relationship, through regular progress meetings, with the Council's External Auditors Grant Thornton, the Internal Auditors and Senior Officers. There was also further engagement with Grant Thornton, through regular consideration of their informative Audit Committee Update publications at Committee meetings.

*Internal Audit*

Internal Audit has reviewed itself against the governance arrangements set out in the CIPFA Statement on the Role of Head of Internal Audit and the Council is able to confirm that the arrangements conform to these requirements. The Council is also able to confirm compliance with the Public Sector Internal Audit Standards and in March 2018 the Audit and Risk Committee approved the option for the council's internal audit team to undertake a self-assessment with independent valuation early in 2018-2019.

Internal Audit has concluded that based on the work undertaken during the year on areas of key risk, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes".

*Managing the risk of Fraud and Corruption*

With regards to the CIPFA Code of practice on managing the risk of fraud and corruption - having considered all the principles, the Council is satisfied that it has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. The activities undertaken in this area were primarily led during the year by the Audit and Risk Committee.



*CIPFA's Statement on the Role of the Chief Financial Officer in Local Government*

The role of the Council's Section 151 Officer has been assessed against the CIPFA Statement and found to be compliant.

*Key changes to the governance framework*

There were no key changes to the governance framework during the year. However, in February 2018 the Cabinet approved a new senior management structure which will come into effect during 2018-2019.

*West Midlands Pension Fund*

The West Midlands Pension Fund has completed its own "Assurance Framework – Supporting the Annual Governance Statement" which identified that there had been no adverse matters arising from the work behind their assurance framework

*Wolverhampton Homes*

Wolverhampton Homes have included a Statement of Corporate Governance within the Company's Financial Statements for 2017-2018. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes and found to be effective. The review included an assurance statement from the Company's internal auditors.

*Progress on the Governance Issues from 2016-2017*

The table below describes the governance issues identified during 2016-2017 and the progress made against these during 2017-2018. While a number of issues have been carried forward to 2018-2019, these often relate to a range of on-going activities that develop as issues are addressed and programmes continue.

| 2016-2017 - Key areas for Improvement | In-year update provided as at 31 October 2017 | End of year update |
|---|---|---|
| *Savings Targets*<br><br>This continues to be a key area for the Council to manage as it is faced with finding savings of £20.5 million by 2019/20. As part of this process £14.9 million of additional savings is to be identified for 2018-2019 and reported to Cabinet, in order to demonstrate that a balanced budget can be achieved in 2018-2019. | On 18 October Cabinet approved that:<br>• That Financial Transaction and Base Budget Revisions totalling a net reduction of £12.5 million in 2018-2019 be incorporated into the 2018-2019 draft budget.<br>• A one-off base budget revision to the Treasury Management budget totalling £1.0 million for 2018-2019.<br>• The one-off use of £700,000 from the Job Evaluation reserve in 2018-2019.<br>• The use of capital receipts totalling £2.7 million to fund the revenue cost of transformational projects that are anticipated to deliver efficiencies<br><br>Cabinet also approved a number of changes to items in the Medium Term Financial Strategy. As a result of the recommendations approved by Cabinet the Council is projected to be able to set a balanced budget for 2018-2019. | Council approved a balanced budget for 2018-2019 without the use of general reserves.<br><br>It is estimated that further savings of £19.5 million will need to be identified for 2019-2020.<br><br>Council approved that work starts on developing budget reductions for 2019-2020 and that progress be reported to Cabinet in July 2018. It is important to note that the updated projected budget deficit assumes the achievement of budget reduction proposals amounting to £28.3 million over the two-year period to 2019-2020.<br><br>*(Carried forward)* |

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| | Budget consultation and scrutiny will be undertaken during November and December the outcome of which will be reported back to Cabinet. | |
| *Procurement, Contract Management and Monitoring*<br>Following the recruitment of the Contract Manager post a standard approach to performance monitoring and contract administration is to be developed during 2017-2018. | A team of four commercial and contract management staff have been recruited and the Council's strategic and high value contracts are being actively managed ie: Waste Treatment, Waste Collection and Recycling, Leisure PFI, Yoo Recruit Partner.<br>A pilot of contract management training has been undertaken with the Housing Team this will be rolled out across other service teams in 2018-2019. | The contract management team is now established and working with the relevant services teams. Contract management training is being rolled out across service teams and being tailored to their specific requirements. This will continue during 2018-2019.<br>*(Carried forward)* |
| *Combined Authority*<br>Following the election of the new Mayor in May 2017, the Council will be working with their office in order to maximise the benefits the Combined Authority will bring to the city. | Excellent relationships have been built with the Metro Mayor and his office. This has resulted in the City of Wolverhampton getting a high profile and additional funds for the train station and other projects. | Portfolio responsibilities on the Combined Authority's Board have been agreed, and are held by each Leader, with Transport assigned to Councillor Roger Lawrence.<br>The Authority has successfully recruited a senior leadership team comprising a chief executive, director of housing and regeneration, director of skills and productivity, director of public service reform, director of strategy and director of corporate resources.<br>The budget for 2018-2019 was approved at its meeting in February.<br>The devolution deal 2 was agreed with Government in November 2017 and covers a number of areas |

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| | | where the Government has committed to support the West Midlands as it develops its Local Industrial Strategy to drive regional economic growth.<br>A delivery plan for the devolution deal has been developed and work is underway to plan delivery impact within Wolverhampton.<br>*(Carried forward)* |
| *Corporate Landlord*<br>Strategic Asset Plan - to develop the Strategic Asset Plan with CIPFA.<br>Asset Challenge- to develop a utilisation template and consider life-cycle condition surveys as part of the future FM Delivery Model<br>Data Management - to rationalise systems and introduce a data intelligence solution. | Strategic Asset Plan – all stakeholder engagement sessions have been held with CIPFA and the draft Strategic Asset Plan is expected by the end of December 2017.<br>Asset Challenge – three workshops have taken place and to date have identified a potential 45 further buildings that could be included in the Medium Term Financial Strategy Disposal Programme. The next step will be to asset challenge the Council's land holdings.<br>Data Management – the Focal 365 Business Intelligence Solution is in full production and will be implemented by March 2018. | A draft Strategic Asset Plan has been produced and is to be finalised by the end of June 2018. The Disposal Programme for 2018-2019 and 2019-2020 has been identified and the delivery of the programme is in progress. Focal 365 has been implemented, data migration and cleansing is in progress and the system is being utilised.<br>*(Carried forward)* |

*Action Plan for the Significant Governance Issues identified during 2017-2018 which will need addressing in 2018-2019*

# 8. ANNUAL GOVERNANCE STATEMENT

Based on the Council's established risk management approach, the following issues have been assessed as being key for the purpose of the 2017-2018 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

| 2017-2018 - Key areas and actions for implementation | Responsibility and expected implementation date |
|---|---|
| *Savings Targets (brought forward)*<br><br>This continues to be a key area for the Council to manage as it is faced with finding savings of £19.5 million by 2019-2020. | Director of Finance<br><br>July 2018 |
| *Procurement, Contract Management and Monitoring (brought forward)*<br><br>Following the establishment of the contract monitoring team, contract management training is being rolled out across service teams and being tailored to their specific requirements. | Director of Commercial Services<br><br>March 2019 |
| *Combined Authority (brought forward)*<br><br>The devolution deal 2 agreed in November 2017 covers a number of areas where the Government has committed to support the West Midlands as it develops its Local Industrial Strategy to drive regional economic growth. The deal sets out a number of initiatives on public service reform, ways in which the West Midlands could have more control of financing its activities, new arrangements for the adult skills budget and agreed governance changes, including a commitment to integrate the West Midlands Fire and Rescue Service into the Combined Authority, whereby a public consultation has been completed and will be submitted to the Secretary of State alongside the draft Scheme.A delivery plan for the devolution deal has been developed and work is underway to plan delivery impact within Wolverhampton.<br><br>A devolution deal for the adults' skills budget is also progressing. The Adult Education Budget (AEB) grant funds activity in Further Education (FE) Colleges, Local Authority Adult and Community Learning services and at a much smaller scale through contracts with private training providers. Key Features include implementing a governance structure that ensures the Combined Authority is engaged with the Department so that there is an understanding of how post 16 policy aligns to AEB allocations and helping to achieve objectives for adult funding. | Managing Director<br><br>Ongoing programme of work |

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| In March 2018, the Chancellor announced in the Government's Spring Statement, a Housing Deal for the Combined Authority, of £350 million of new Government funding to support the delivery of new homes in the West Midlands. The funding will deliver infrastructure to support the development of priority sites including in and around Wolverhampton.<br><br>Following discussions with Birmingham City Council, it has been agreed from a governance perspective that the transport plan, operations and infrastructure delivery for the Commonwealth games will be led by Transport for West Midlands with Birmingham City Council leading on infrastructure delivery. There are a number of named funded schemes in the bid, including the completion of the Metro in Wolverhampton city centre. | |
| *Corporate Landlord (brought forward)*<br>A draft Strategic Asset Plan has been produced and is to be finalised by the end of June 2018. The Disposal Programme for 2018-2019 and 2019-2020 has been identified and the delivery of the programme is in progress. Focal 365 has been implemented, data migration and cleansing is in progress and the system is being utilised. | Director of Commercial Services<br>March 2019 |

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| *Cyber Security (New)*<br>Maintaining robust, secure and up-to-date technology defences continues to be the Council's first line of defence against cyber-attacks. Regular maintenance of the cyber security technical defences is required to address identified vulnerabilities. System back-up's will continue to be undertaken in accordance with agreed time-tables and practise restores to the Council's non-production area are ongoing to ensure that back-ups have been undertaken correctly and can be restored.<br>Preparation for the next PSN Certification has begun, the certification is due in June. Prior to this internal and external health checks will be undertaken to identify any vulnerabilities which will then be addressed prior to the renewal of the certification.<br>An independent body will be commissioned to undertake a health-check review, once completed any recommendations arising from this will be actioned.<br>Information Security and Cyber-Security policies will continue to be regularly reviewed and updated to ensure they are keeping pace and addressing potential threat opportunities.<br>Employee awareness of potential threats and good working practices, through mandatory and associated training will continue in order to enhance the understanding of cyber security and good working practices, helping to minimise the opportunities. | Director of Commercial Services<br>March 2019 |
| *Project Governance including the Civic Halls (New)*<br>In January 2018, the Council approved a further £23.7 million for a new scheme for the Civic Halls on the basis of a revised business case to address significant building fabric, structural and management issues following detailed technical surveys and reviews that were undertaken in 2017. Additional works include a substantial number of items not included in the original scheme such as a new electrical and engineering system, major structural work, including a new roof and the latest safety and security measures.<br>A new governance and project management structure is being put in place, commensurate with the scale and complexity of this scheme, including the appointment of a more experienced Project Manager and a specialist in risk management. The new project includes a range of work-streams alongside the main design and construction works. | Director of Commercial Services<br>March 2019 |

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| Also, Audit Services have recently undertaken a lessons learned review in order to prevent similar issues with future projects. Once this report has been finalised, the recommendations arising from it will be implemented in accordance the agreed timescales.<br><br>This framework will also be adopted for all future projects of this size, while for smaller projects the Council is introducing a local approach to project assurance which will encompass a series of gateway reviews. | |
| *General Data Protection Regulations (New)*<br><br>The Council is putting into place appropriate policies, procedures and technologies to ensure that the handling and protection of its data is undertaken in a secure manner and consistent with both the provisions of the current Data Protection Act 1998, the new Data Protection Bill (which will become the Data Protection Act 2018) and the General Data Protection Regulation (GDPR) which comes into force during May 2018, and a work programme has been developed. | Director of Commercial Services<br><br>March 2019 |
| *Arm's Length Management Organisation Housing Partnership - Residential Landlord Services (New)*<br><br>New Service Level Agreements and management arrangements are being put in place for the delivery of Homelessness Prevention Services/Housing Option Services, Disabled Facilities Grants, Affordable Warmth and Home Improvement Agency Services with Wolverhampton Homes, following the 'transfer' of these services in December 2017. A legal review of the ALMO Management Agreement commenced in February 2018 and will be presented to Cabinet in July 2018 making any necessary recommendations to amend Management Agreement monitoring and/ governance and/or legal operating arrangements. | Service Director – Housing<br><br>March 2019 |
| *Tenant Management Organisations - Residential Landlord Services (New)*<br><br>An employee 'desk top' review commenced in February 2018 of these partnerships. Further to this review, an audit schedule has been agreed for 2018-2019 for all four TMOs operating in the City. Management Agents have been notified of the forthcoming audits commencing in May 2018. A number of TMO 'Modular Management Agreements' are not currently in place. New Key Performance Indicators (KPIs) for Landlord Services (including Health and Safety) monitoring are to be | Service Director – Housing<br><br>March 2019 |

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| reported from Quarter 1 in 2018-2019. TMO operational performance and KPIs continue to be reported to the Cabinet Performance Panel.<br><br>Dovecotes TMO has been placed under a performance improvement arrangement (via a Performance Improvement Plan agreed with Dovecotes TMO Board in March 2018), for six months due to concerns around governance and performance. An outcome of a Housing Ombudsman Inquiry was also pending at March 2018.<br><br>Bushbury Estate Management Board (TMO) continues its Application and Business Case to the Secretary of State and Minister of Housing, Communities and Local Government to enact the Right to Transfer of approximately 830 council freehold homes to a Preferred Transfer Partner by April 2019. The City continues in its duty to co-operate in the Right to Transfer legislative process. | |
| *Residential Site Management Agreement (New)*<br><br>A review of the existing arrangements for Residential Site Management commenced in March 2018. A draft Management Agreement has been produced but was not engrossed as at March 2018. It is anticipated a new interim Management Arrangement will be put in place by the end of Quarter 1 in 2018-2019, whilst a longer-term review of management options is undertaken in consultation with partners, residents and Wolverhampton Homes. | Service Director – Housing<br>March 2019 |
| *Housing Policies (New)*<br><br>**City Housing Allocations Policy** – Cabinet received a report in April 2018 to ensure the City Housing Allocations Policy with Amendments meets the new requirements of the new Homelessness Reduction Act 2018. Landlord Management Agents will be required to operate in accordance with the Amended Housing Allocation Policy. Operational measures have been put in place with the ALMO (Wolverhampton Homes) to ensure operational compliance from 1 April 2018. A further Review (including formal consultation) of the Allocations Policy, including an Equality Impact Assessment is planned by Quarter 3 I 2018-2019 | Service Director – Housing<br>March 2019 |

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| **Private Housing Assistance Policy** – A new Private Housing Assistance Policy is being developed to ensure continued compliance with the Regulatory Reform (Housing Assistance) England and Wales Order 2002, Housing, Grants and Construction and Regeneration Act 1996 and the Housing Act 2004.<br><br>**Housing Right to Buy Policy** – A report to Cabinet making recommendations to revise four elements of the Right to Buy Policy is to be presented to Cabinet by June 2018 to ensure continued compliance with Housing Act 1985<br><br>**Housing Enforcement / Illegal Evictions** – There is currently no City Policy or resources in place to administer legal requirements under Protection from Eviction Act 1977 and Housing Act 1980. A proposal to resource and develop a new service offer is to be developed. The option of an interim resource arrangement with another Local Authority will also be considered.<br><br>**Prevention of Homelessness Strategy** – A draft Homelessness Strategy is being consulted upon in readiness for Members consideration in June 2018. This would meet the obligations of the Homelessness Act 2002 and Code of Guidances. | |

*Future Assurance*

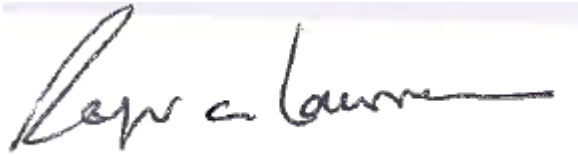
A progress report on the implementation of the above actions from the key areas will be produced by Audit Services and reported to the Audit and Risk Committee during 2018-2019.

*Certification*

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. 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 during the review of effectiveness and will monitor their implementation and operation as part of our annual review.



Roger Lawrence, Leader of the Council



Date: 21 May 2018

Keith Ireland, Managing Director

Date: 21 May 2018

# 9. GLOSSARY

**Academy**
A school which chooses to opt out of a local authority's control and maintain its own funding.

**Accruals (Accrual Accounting)**
Refers to the fundamental accounting principle that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
*See Receivables, Payables*

**Actuarial / Actuary**
The science and profession of using mathematical techniques to model and quantify the financial effects of uncertain future events. For the Council, this is relevant in the context of accounting for the Pension Fund, where future transactions of the fund will occur so far into the future that they cannot yet be known with certainty.

**Arm's Length Management Organisation**
An organisation which is, according to legislation, controlled by (i.e. a subsidiary of) a parent organisation, but whose management structures mean that control is loose and rarely manifests it directly on day-to-day operations of the subsidiary.

**Amortisation**
The way in which an asset or liability is accounted for over more than one period (other than property, plant and equipment, for which depreciation applies).
*See Depreciation*

**Asset**
An item that is owned by and can be used by the Council.
*See Non-Current Asset*

**Bad Debt Provision**
Bad debts are amounts owed to the Council which it does not believe will be repaid. The Council makes a provision for the amount of bad debt it expects to incur.

# 9. GLOSSARY

**Budget**
A budget is a plan of approved spending during a financial year.
**Business Rate or National Non-Domestic Rates (NNDR)**
Businesses across the country have to pay business rates. The government decides how much they should pay and Local Authorities collect the money. In Wolverhampton, the amount collected is shared on the following basis:

- Central Government 50%
- City of Wolverhampton Council 49%
- West Midlands Fire and Rescue Authority 1%

**Capital Adjustment Account**
An account whose purpose is to serve as a balancing mechanism between the different rates at which assets are depreciated in line with the Code of Practice and are financed under the capital controls regime. It is shown in the Balance Sheet as a reserve, although it does not represent funds available for future expenditure.
*See Capital Financing Requirement*

**Capital Expenditure**
Expenditure on the acquisition of property, plant and equipment, or expenditure which adds to, and not merely maintains, the value of an existing asset.
*See Deferred Charge, Property, Plant and Equipment*

**Capital Financing Requirement**
An amount calculated as Non-Current Assets less the balances on the Capital Adjustment Account.
*See Minimum Revenue Provision*

**Capital Programme**
The plan of approved spending on fixed assets (which includes assets that do not belong to the Council, under certain circumstances).

**Capital Receipt**
Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the Council.

# 9. GLOSSARY

**Chartered Institute of Public Finance and Accountancy (CIPFA)**
CIPFA is a UK accountancy body, specialising in the finances of the public sector. CIPFA is responsible for determining the accounting rules and procedures that apply to local authorities.
*See Statement of Recommended Practice, Code of Practice*

**Code of Practice on Local Authority Accounting**
The set of accounting principles and practices developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.
*See International Financial Reporting Standards, Chartered Institute of Public Finance and Accountancy (CIPFA)*



**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 collected and payments to the General Fund and other public bodies.

**Community Assets**
Assets that the Council 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.

**Consistency**
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Contingent Asset**
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

**Contingent Liability**
A contingent liability is either:

a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or b) A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core**
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

**Council Tax**
A tax paid by residents of the authority to the Council, based on the value of their property, to be spent on local services.



**Current Asset**
An asset held for a short period of time, for example cash in the bank, stocks and receivables.

**Dedicated Schools Grant**
Schools are funded separately from other Council services. The Council receives a Dedicated Schools Grant (DSG) direct from the Government, which is paid over to schools.

**Deficit**
This occurs when spending exceeds income (opposite of surplus).

**Defined Benefit Scheme**
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Defined Contribution Scheme**
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed 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.

**De Minimus**
The minimum value below which expenditure and income in respect of assets is not capitalised but is charged or credited to revenue in full in the period it was incurred or earned.
*See Capital Expenditure*

**Depreciation**
The measure of the wearing out, consumption or other reduction in the useful economic life of property, plant and equipment.
*See Impairment*



**Disclosure**
Additional information required by the Code of Practice if a set of conditions are met. If the Council judges that the conditions have not been met in its case, they will make no disclosure.
*See Code of Practice*

**Discount**
A reduction given by a lender in the amount to be repaid on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the borrower.
*See Premium*

**Dividend**
A payment made by a company out of profits to its shareholders.

**Earmarked Reserve**
A sum set aside for a specific purpose.
*See Usable and Unusable Reserves*

**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 officer.

**Exceptional Items**
Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Existing Use Value (Social Housing)**
The value of a dwelling, given that, were it to be sold, the new purchaser must rent out the property, and set rents at social housing (i.e. below open market) levels.
*See Vacant Possession Value*

**Fair Value**
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.



**Fees and Charges**
Income arising from the provision of services, for example the use of leisure facilities.

**Finance Lease**
A lease that transfers substantially all of the risks and rewards of ownership of property, plant and equipment to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.
*See Operating Lease*

**Financial Instrument**
Any contract that gives to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Year**
This runs from 1 April to 31 March.

# 9. GLOSSARY

**General Fund**
The fund to which the cost of all services of the Council (except for Housing Revenue Account services) is charged. The net cost of the General Fund is met by Council Tax, Governments Grants and NNDR.

**Going Concern**
The concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

**Government Grants**
Assistance by government and inter-governmental agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the Council.

**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 ring-fenced account detailing the expenditure and income arising from the provision of council housing, as required by the Local Government and Housing Act 1989.

**Impairment**
A diminution in value of a property, plant and equipment resulting from amongst other things, 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.
*See Property, Plant and Equipment*

**Income and Expenditure Account / Statement**
This describes the expenditure made in a single year by an entity, in accordance with the accounting standards that apply at that time to that body in order to generate a view of its year end position in relation to its profit or usable reserves. The following terms are synonymous: "The Income and Expenditure Account", "Comprehensive Income and Expenditure Statement", "Income and Expenditure Statement".

**Infrastructure Assets**
These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways and footpaths.

**Intangible Assets**
An item which does not have physical substance (for example, software licenses) but can be identified and used by the Council over a number of years.

**International Accounting Standards (IAS)**
These standards were issued by the International Accounting Standards Committee (IASC) - founded in 1973 as a private enterprise initiated by national accounting companies. This committee issued International Accounting Standards for private companies to follow. These standards have now largely been replaced by International Financial Reporting Standards.
*See International Financial Reporting Standards*

**International Financial Reporting Standards (IFRS)**
These standards are issued by the International Accounting Standards Board (IASB), established on 1 April 2001 with EU support to be the successor to the IASC. The IASB adopted the International Accounting Standards and then began issuing its own International Financial Reporting Standards. These became mandatory for all private companies quoted on the Stock Exchange in 2004.



**Inventories**
Goods owned by the Council which have not been used by the end of the financial year.

**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.

**Investment Properties**
Interest in land and/or buildings:
(i) In respect of which construction work and development have been completed.
(ii) Is held for its investment potential, any rental income being negotiated at arm's length.

**Levy**
A payment made by the Council to another local service, for example, local transport and the Environment Agency.

**Liabilities**
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.
*See Accruals, Payables*

**Major Repairs Reserve**
A reserve to pay for large scale repairs to council houses.

**Materiality**
An item is material if its omission, non-disclosure or misstatement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

**Provision for the Redemption of Debt (MRP)**
A minimum amount, determined according to a formula approved by the Council, which must be charged to the revenue account, for debt redemption or for the discharge of other credit liabilities.
*See Capital Financing Requirement*

**National Non-Domestic Rates (NNDR)**
Rates which are levied on business properties and collected by the Council and accounted for on an agency basis. These funds are then distributed between the General Fund and other public bodies.

**Net Book Value**
The amount at which property plant and equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
*See Property Plant and Equipment*

**Net Current Replacement Cost**
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net Realisable Value**
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**Net Worth**
A monetary value, defined as the value of the Council's assets less the value of its liabilities. This is the "bottom line" of the Balance Sheet.

**Non-Current Asset**
An item, for example land, buildings and vehicles, which yield benefits to the Council and the services it provides over a period of more than one year.



**Obsolescence**
The term used to describe an asset which no longer has any value to an organisation due to changes in the organisation's operating environment or the emergence of overwhelmingly superior alternatives to that asset.
*See Impairment*

**Operational & Non-Operational Assets**
Operational Assets are those that are used directly in providing Council services. Non-operational assets are assets held for any other purpose, for example for investment or where they are no longer used and have been earmarked for disposal.
*See Property Plant and Equipment*

**Operating Leases**
Leases other than a finance lease.
*See Finance Leases*

**Payables**
An amount owed by the Council for work done, goods received, or services rendered, but for which payment has not been made at the end of the year.
*See Accruals, Receivables*

**Precept**
The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the Council on their behalf. A body which can set a precept is called a preceptor.

**Premium**
An amount charged by a lender (over and above the outstanding principal) on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the lender.
*See Discount*

**Prior Year 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.
*See Capital Expenditure*

**Provisions**
Amounts set aside in respect of a liability of uncertain timing or amount, where a reliable estimate of the potential value can be made.

**Prudence**
This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

**Receipts in Advance**
Money received before the end of the financial year, but which relates to the following financial year.

**Receivables**
Sums of money owed to the Council but not received at the end of the year.
*See Accruals, Payables*

**Related Party**
There is a detailed definition of related parties in FRS 8. For the Council's purposes, related parties are deemed to include:
(i) The elected members of the Council and their partners.
(ii) The senior officers of the Council.
(iii) The companies in which the Council has an interest.
(iv) Central Government and preceptors of Wolverhampton's Collection Fund.
(v) Other entities which the Council has the ability to control or influence.

**Retirement Benefits**
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either;
(i) An employer's decision to terminate an employee's employment before the normal retirement date; or
(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**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**
Spending on assets that have a lasting value but are not owned by the Council, for example, improvement grants.

**Revenue Support Grant (RSG)**
Grant from central government towards the cost of providing General Fund services.

**Ring-fenced**
Certain accounts, such as the Collection Fund, must be maintained separately outside the General Fund as a statutory requirement.

**Service Reporting Code of Practice (SERCOP)**
This guidance is issued by CIPFA and determines the costs which should be shown in the service lines in the Consolidated Income and Expenditure Statement, by determining which types of cost and income should be shown against which service. This promotes comparison between authorities by readers of the accounts.
*See Income and Expenditure Account/Statement*

**Trust Fund**
A fund administered by the Council on behalf of others for such purposes as charities and specific projects.

**Usable Reserves**
Reserves that can be applied to fund expenditure or reduce local taxation.

**Unusable Reserves**
Amounts that have come about purely from accounting adjustments and are not therefore available to spend.

**Useful life**
The period over which the Council will derive benefits from the use of an asset.

**Vacant Possession Value**
The market value of a property, were it to be sold with no unusual restrictions on the occupation of the property, or the level of any rents or charges made for its use.
*See Existing Use Value (Social Housing)*

**Work in Progress**
Expenditure in respect of assets that are not yet ready to be put into use or sold (as appropriate).

Agenda Item No: 7

CITY OF WOLVERHAMPTON COUNCIL

# Audit and Risk Committee

11 June 2018

| | | |
|---|---|---|
| **Report title** | Annual Governance Statement 2017-2018 | |
| **Accountable director** | Claire Nye, Finance | |
| **Originating service** | Audit | |
| **Accountable employee(s)** | Peter Farrow<br>Tel<br>Email | Head of Audit<br>01902 554460<br>peter.farrow@wolverhampton.gov.uk |
| **Report to be/has been considered by** | Strategic Executive Board | 15 May 2018 |

**Recommendation for decision:**

The Committee is recommended to:

1. Review and comment upon the contents of the Council's Annual Governance Statement for 2017-2018.

## 1.0 Purpose

1.1 That the Committee review and comment upon the content of the Annual Governance Statement for the year 2017-2018.

1.2 The Council is required under Regulation 6 of the Accounts and Audit Regulations 2015, to produce an Annual Governance Statement to be included in the annual statement of accounts, which is signed by the Leader of the Council and the Managing Director.

## 2.0 Background

2.1 The Annual Governance Statement draws upon the management and internal control framework of the Council, especially the work of internal and external audit and the Council's risk management arrangements. In compiling the Annual Governance Statement assurance is obtained from a range of sources in order that the signatories to the statement can assure themselves that it reflects the governance arrangements for which they are responsible.

## 3.0 Progress, options, discussion

3.1 Progress on the implementation of the actions required in the key areas will be monitored by Audit Services and reported to the Audit and Risk Committee during the year.

## 4.0 Financial implications

4.1 There are no financial implications arising from the recommendation in this report. (GE/25052018/G)

## 5.0 Legal implications

5.1 There are no legal implications arising from the recommendation in this report. (TS/29052018/Q)

## 6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendation in this report.

## 7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendation in this report.

## 8.0 Human resources implications

8.1 There are no human resources implications arising from the recommendation in this report.

## 9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report

## 10.0 Schedule of background papers

10.1 None

## 11.0 Appendices

11.1 Appendix 1 - Annual Governance Statement 2017-2018

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CITY OF WOLVERHAMPTON COUNCIL

# DRAFT Annual Governance Statement 2017-2018

## *Scope of Responsibility*

The City of Wolverhampton 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.

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, which includes arrangements for the management of risk.

The Council has a Local Code of Corporate Governance, which is being revised in line with the latest principles of the Chartered Institute of Public Finance and Accountancy/ Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework Delivering Good Governance in Local Government. The new principles have been adopted in this statement.

The Council is also responsible for the strategic management and administration of the *West Midlands Pension Fund* with the Council's Managing Director, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting both the members of the Pensions Committee and the Local Pension Board in their role.

*Wolverhampton Homes* is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.

## *The Purpose of the Governance Framework*

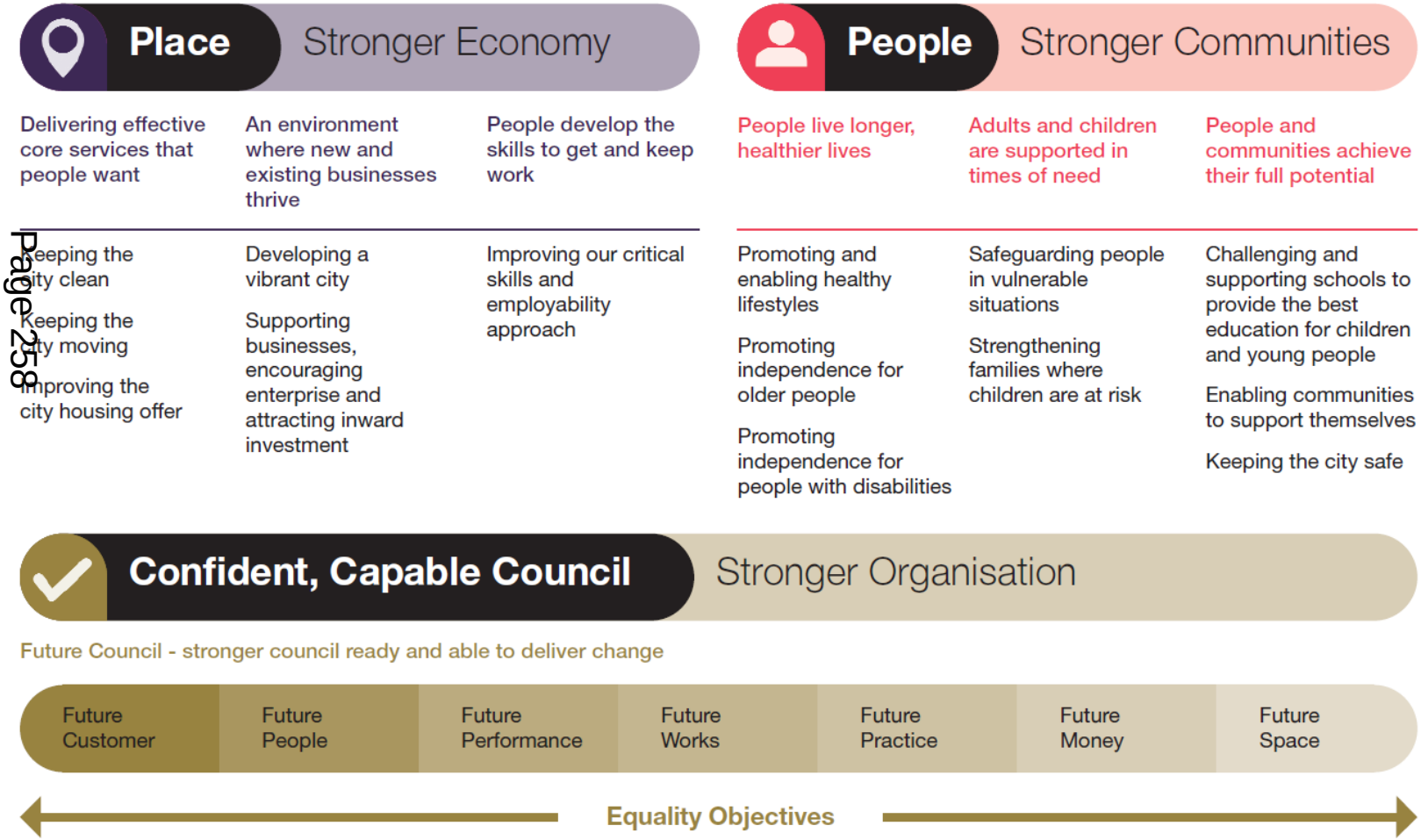
The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They 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 systems of risk management and internal control are 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.

The governance framework has been in place at the Council for the year ended 31 March 2018 and up to the date of approval of the annual report and statement of accounts.

The Council has a Corporate Plan with the following aims and themes



These are underpinned by the governance environment. This environment is consistent with the core principles of the new CIPFA/ SOLACE framework. In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key elements of the systems and processes that comprise the Council's governance framework, and where assurance against these is required, are described below.

| Core principles of the CIPFA/ SOLACE framework | Assurances required | Governance framework providing assurance | Review of Effectiveness | Issues identified |
|---|---|---|---|---|
| • Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.<br>• Ensuring openness and comprehensive stakeholder engagement.<br>• Defining outcomes in terms of sustainable economic, social, and environmental benefits.<br>• Determining the interventions necessary to optimise the achievement of the intended outcomes.<br>• Developing the entity's capacity, including the capability of its leadership and the individuals within it.<br>• Managing risks and performance through robust internal control and strong public financial management.<br>• Implementing good practices in transparency, reporting, and audit to deliver effective accountability. | ← | | → | |
| | • Delivery and communication of an agreed corporate plan<br>• Quality services are delivered efficiently and effectively<br>• Clearly defined roles and functions<br>• Management of risk<br>• Effectiveness of internal controls<br>• Compliance with laws, regulation, internal policies and procedures<br>• Value for money and efficient management of resources<br>• High standards of conduct and behaviour<br>• Public accountability<br>• Published information is accurate and reliable<br>• Implementation of previous governance issues | • The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer)<br>• Council, Cabinet and Committees<br>• Audit and Risk Committee<br>• Scrutiny function<br>• Standards Committee<br>• Internal and External Audit<br>• Strategic Executive Board<br>• Wider Leadership Team<br>• Directors Assurance Statements<br>• Corporate and Business plans<br>• Medium Term Financial Strategy<br>• Corporate Risk Register and Assurance Map<br>• Codes of Conduct<br>• Business Planning and Performance Management Framework<br>• Whistleblowing and other anti-fraud related policies<br>• Complaints System<br>• Financial Procedures Rules<br>• Contract Procedure Rules<br>• modern.gov (the council's committee management information system) | • External Audit Report to Those Charged with Governance (ISA 260) Report – unqualified opinion<br>• Annual Internal Audit Report - unqualified opinion<br>• Annual Audit and Risk Committee Report to Council<br>• 2017 Local Government Association (LGA) Corporate Peer Review – positive outcome<br>• 2017 Ofsted inspection of Children's Services – judged "Good".<br>• Annual Statement of Accounts<br>• Local Government Ombudsman Report<br>• Scrutiny reviews<br>• Annual Governance Statement – including the follow up of previous year issues | • Medium Term Financial Strategy<br>• Procurement, Contract Management and Monitoring<br>• Corporate Landlord<br>• West Midlands Combined Authority<br>• Cyber Security<br>• Project Governance<br>• General Data Protection Regulations<br>• Arm's Length Management Organisation Housing Partnership<br>• Tenant Management Organisations<br>• Residential Site Management<br>• Housing Policies |

### *The Review of Effectiveness*

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of councillors and senior officers within the Council who have responsibility for the development and maintenance of the governance framework including Internal Audit's annual report, the scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates. The above table helps illustrate this framework, where assurance is provided and the processes through which the effectiveness of these arrangements are reviewed.

### *Opinion for 2017-2018*

The review of effectiveness has found the arrangements for the governance framework to be fit for purpose.

A key component of the review is through the work of the Council's Audit and Risk Committee and during the year the Committee continued with its new initiatives, helping to ensure that the Council had a modern, effective and risk focussed Committee. During the year they:

- Maintained the focus of the Committee on the Council's risk management arrangements, gaining an increased assurance that the Council was managing its risks well. This also involved the Committee 'calling-in' certain risks and their risk owners, for a more detailed review.
- Hosted a regional Audit Committee Forum in partnership with top accountancy firm Grant Thornton UK LLP. This event saw councillors and Audit Committee members from local authorities come together to discuss key themes and their governance responsibilities.
- Maintained a strong working relationship, through regular progress meetings, with the Council's External Auditors Grant Thornton, the Internal Auditors and Senior Officers. There was also further engagement with Grant Thornton, through regular consideration of their informative Audit Committee Update publications at Committee meetings.



### *Internal Audit*

Internal Audit has reviewed itself against the governance arrangements set out in the CIPFA Statement on the Role of Head of Internal Audit and the Council is able to confirm that the arrangements conform to these requirements. The Council is also able to confirm compliance with the Public Sector Internal Audit Standards and in March 2018 the Audit and Risk Committee approved the option for the council's internal audit team to undertake a self-assessment with independent valuation early in 2018-2019.

Internal Audit has concluded that based on the work undertaken during the year on areas of key risk, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes".

### *Managing the risk of Fraud and Corruption*

With regards to the CIPFA Code of practice on managing the risk of fraud and corruption - having considered all the principles, the Council is satisfied that it has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. The activities undertaken in this area were primarily led during the year by the Audit and Risk Committee.

### *CIPFA's Statement on the Role of the Chief Financial Officer in Local Government*

The role of the Council's Section 151 Officer has been assessed against the CIPFA Statement and found to be compliant.

### *Key changes to the governance framework*

There were no key changes to the governance framework during the year. However, in February 2018 the Cabinet approved a new senior management structure which will come into effect during 2018-2019.

### *West Midlands Pension Fund*

The West Midlands Pension Fund has completed its own "Assurance Framework – Supporting the Annual Governance Statement" which identified that there had been no adverse matters arising from the work behind their assurance framework.

### *Wolverhampton Homes*

Wolverhampton Homes have included a Statement of Corporate Governance within the Company's Financial Statements for 2017-2018. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes and found to be effective. The review included an assurance statement from the Company's internal auditors.

*Progress on the Governance Issues from 2016-2017*

The table below describes the governance issues identified during 2016-2017 and the progress made against these during 2017-2018. While a number of issues have been carried forward to 2018-2019, these often relate to a range of on-going activities that develop as issues are addressed and programmes continue.

| 2016-2017 - Key areas for Improvement | In-year update provided as at 31 October 2017 | End of year update |
|---|---|---|
| *Savings Targets*<br>This continues to be a key area for the Council to manage as it is faced with finding savings of £20.5 million by 2019/20. As part of this process £14.9 million of additional savings is to be identified for 2018-2019 and reported to Cabinet, in order to demonstrate that a balanced budget can be achieved in 2018-2019. | On 18 October Cabinet approved that:<br>• That Financial Transaction and Base Budget Revisions totalling a net reduction of £12.5 million in 2018-2019 be incorporated into the 2018-2019 draft budget.<br>• A one-off base budget revision to the Treasury Management budget totalling £1.0 million for 2018-2019.<br>• The one-off use of £700,000 from the Job Evaluation reserve in 2018-2019.<br>• The use of capital receipts totalling £2.7 million to fund the revenue cost of transformational projects that are anticipated to deliver efficiencies<br>Cabinet also approved a number of changes to items in the Medium Term Financial Strategy. As a result of the recommendations approved by Cabinet the Council is projected to be able to set a balanced budget for 2018-2019.<br>Budget consultation and scrutiny will be undertaken during November and December the outcome of which will be reported back to Cabinet. | Council approved a balanced budget for 2018-2019 without the use of general reserves. It is estimated that further savings of £19.5 million will need to be identified for 2019-2020.<br>Council approved that work starts on developing budget reductions for 2019-2020 and that progress be reported to Cabinet in July 2018. It is important to note that the updated projected budget deficit assumes the achievement of budget reduction proposals amounting to £28.3 million over the two year period to 2019-2020.<br>*(Carried forward)* |

| | | |
|---|---|---|
| *Procurement, Contract Management and Monitoring*<br>Following the recruitment of the Contract Manager post a standard approach to performance monitoring and contract administration is to be developed during 2017-2018. | A team of four commercial and contract management staff have been recruited and the Council's strategic and high value contracts are being actively managed i.e. Waste Treatment, Waste Collection and Recycling, Leisure PFI, Yoo Recruit Partner.<br>A pilot of contract management training has been undertaken with the Housing Team this will be rolled out across other service teams in 2018-2019. | The contract management team is now established and working with the relevant services teams. Contract management training is being rolled out across service teams and being tailored to their specific requirements. This will continue during 2018-2019.<br>*(Carried forward)* |
| *Combined Authority*<br>Following the election of the new Mayor in May 2017, the Council will be working with their office in order to maximise the benefits the Combined Authority will bring to the city. | Excellent relationships have been built with the Metro Mayor and his office. This has resulted in the City of Wolverhampton getting a high profile and additional funds for the train station and other projects. | Portfolio responsibilities on the Combined Authority's Board have been agreed, and are held by each Leader, with Transport assigned to Councillor Roger Lawrence.<br>The Authority has successfully recruited a senior leadership team comprising a chief executive, director of housing and regeneration, director of skills and productivity, director of public service reform, director of strategy and director of corporate resources.<br>The budget for 2018-2019 was approved at its meeting in February.<br>The devolution deal 2 was agreed with Government in November 2017 and covers a number of areas where the Government has committed to support the West Midlands as it develops its Local Industrial Strategy to drive regional economic growth.<br>A delivery plan for the devolution deal has been developed and work is underway to plan delivery impact within Wolverhampton.<br>*(Carried forward)* |

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| *Corporate Landlord*<br>Strategic Asset Plan - to develop the Strategic Asset Plan with CIPFA.<br>Asset Challenge- to develop a utilisation template and consider life-cycle condition surveys as part of the future FM Delivery Model<br>Data Management - to rationalise systems and introduce a data intelligence solution. | Strategic Asset Plan – all stakeholder engagement sessions have been held with CIPFA and the draft Strategic Asset Plan is expected by the end of December 2017.<br>Asset Challenge – three workshops have taken place and to date have identified a potential 45 further buildings that could be included in the Medium Term Financial Strategy Disposal Programme. The next step will be to asset challenge the Council's land holdings.<br>Data Management – the Focal 365 Business Intelligence Solution is in full production and will be implemented by March 2018. | A draft Strategic Asset Plan has been produced and is to be finalised by the end of June 2018. The Disposal Programme for 2018-2019 and 2019-2020 has been identified and the delivery of the programme is in progress. Focal 365 has been implemented, data migration and cleansing is in progress and the system is being utilised.<br>*(Carried forward)* |



*Action Plan for the Significant Governance Issues identified during 2017-2018 which will need addressing in 2018-2019*

Based on the Council's established risk management approach, the following issues have been assessed as being key for the purpose of the 2017-2018 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

| 2017-2018 - Key areas and actions for implementation | Responsibility and expected implementation date |
|---|---|
| *Savings Targets (brought forward)*<br>This continues to be a key area for the Council to manage as it is faced with finding savings of £19.5 million by 2019-2020. | Director of Finance<br>July 2018 |
| *Procurement, Contract Management and Monitoring (brought forward)*<br>Following the establishment of the contract monitoring team, contract management training is being rolled out across service teams and being tailored to their specific requirements. | Director of Commercial Services<br>March 2019 |

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| *Combined Authority (brought forward)*<br>The devolution deal 2 agreed in November 2017 covers a number of areas where the Government has committed to support the West Midlands as it develops its Local Industrial Strategy to drive regional economic growth. The deal sets out a number of initiatives on public service reform, ways in which the West Midlands could have more control of financing its activities, new arrangements for the adult skills budget and agreed governance changes, including a commitment to integrate the West Midlands Fire and Rescue Service into the Combined Authority, whereby a public consultation has been completed and will be submitted to the Secretary of State alongside the draft Scheme. A delivery plan for the devolution deal has been developed and work is underway to plan delivery impact within Wolverhampton.<br><br>A devolution deal for the adults skills budget is also progressing. The Adult Education Budget (AEB) grant funds activity in Further Education (FE) Colleges, Local Authority Adult and Community Learning services and at a much smaller scale through contracts with private training providers. Key Features include implementing a governance structure that ensures the Combined Authority is engaged with the Department so that there is an understanding of how post 16 policy aligns to AEB allocations and helping to achieve objectives for adult funding.<br><br>In March 2018, the Chancellor announced in the Government's Spring Statement, a Housing Deal for the Combined Authority, of £350 million of new Government funding to support the delivery of new homes in the West Midlands. The funding will deliver infrastructure to support the development of priority sites including in and around Wolverhampton.<br><br>Following discussions with Birmingham City Council, it has been agreed from a governance perspective that the transport plan, operations and infrastructure delivery for the Commonwealth games will be led by Transport for West Midlands with Birmingham City Council leading on infrastructure delivery. There are a number of named funded schemes in the bid, including the completion of the Metro in Wolverhampton city centre. | Managing Director<br>Ongoing programme of work |
| *Corporate Landlord (brought forward)*<br>A draft Strategic Asset Plan has been produced and is to be finalised by the end of June 2018. The Disposal Programme for 2018-2019 and 2019-2020 has been identified and the delivery of the programme is in progress. Focal 365 has been implemented, data migration and cleansing is in progress and the system is being utilised. | Director of Commercial Services<br>March 2019 |

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| *Cyber Security (New)*<br>Maintaining robust, secure and up-to-date technology defences continues to be the Council's first line of defence against cyber-attacks. Regular maintenance of the cyber security technical defences is required to address identified vulnerabilities. System back-up's will continue to be undertaken in accordance with agreed time-tables and practise restores to the Council's non-production area are ongoing to ensure that back-ups have been undertaken correctly and can be restored.<br>Preparation for the next PSN Certification has begun, the certification is due in June. Prior to this internal and external health checks will be undertaken to identify any vulnerabilities which will then be addressed prior to the renewal of the certification.<br>An independent body will be commissioned to undertake a health-check review, once completed any recommendations arising from this will be actioned.<br>Information Security and Cyber-Security policies will continue to be regularly reviewed and updated to ensure they are keeping pace and addressing potential threat opportunities.<br>Employee awareness of potential threats and good working practices, through mandatory and associated training will continue in order to enhance the understanding of cyber security and good working practices, helping to minimise the opportunities. | Director of Commercial Services<br>March 2019 |
| *Project Governance including the Civic Halls (New)*<br>In January 2018, the Council approved a further £23.7 million for a new scheme for the Civic Halls on the basis of a revised business case to address significant building fabric, structural and management issues following detailed technical surveys and reviews that were undertaken in 2017. Additional works include a substantial number of items not included in the original scheme such as a new electrical and engineering system, major structural work, including a new roof and the latest safety and security measures.<br>A new governance and project management structure is being put in place, commensurate with the scale and complexity of this scheme, including the appointment of a more experienced Project Manager and a specialist in risk management. The new project includes a range of work-streams alongside the main design and construction works.<br>Also, Audit Services have recently undertaken a lessons learned review in order to prevent similar issues with future projects. Once this report has been finalised, the recommendations arising from it will be implemented in accordance the agreed timescales.<br>This framework will also be adopted for all future projects of this size, while for smaller projects the Council is introducing a local approach to project assurance which will encompass a series of gateway reviews. | Director of Commercial Services<br>March 2019 |

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| *General Data Protection Regulations (New)*<br>The Council is putting into place appropriate policies, procedures and technologies to ensure that the handling and protection of its data is undertaken in a secure manner and consistent with both the provisions of the current Data Protection Act 1998, the new Data Protection Bill (which will become the Data Protection Act 2018) and the General Data Protection Regulation (GDPR) which comes into force during May 2018, and a work programme has been developed. | Director of Commercial Services<br>March 2019 |
| *Arm's Length Management Organisation Housing Partnership - Residential Landlord Services (New)*<br>New Service Level Agreements and management arrangements are being put in place for the delivery of Homelessness Prevention Services/Housing Option Services, Disabled Facilities Grants, Affordable Warmth and Home Improvement Agency Services with Wolverhampton Homes, following the 'transfer' of these services in December 2017. A legal review of the ALMO Management Agreement commenced in February 2018 and will be presented to Cabinet in July 2018 making any necessary recommendations to amend Management Agreement monitoring and/ governance and/or legal operating arrangements. | Service Director – Housing<br>March 2019 |
| *Tenant Management Organisations - Residential Landlord Services (New)*<br>An employee 'desk top' review commenced in February 2018 of these partnerships. Further to this review, an audit schedule has been agreed for 2018-2019 for all four TMOs operating in the City. Management Agents have been notified of the forthcoming audits commencing in May 2018. A number of TMO 'Modular Management Agreements' are not currently in place. New Key Performance Indicators (KPIs) for Landlord Services (including Health and Safety) monitoring are to be reported from Quarter 1 in 2018-2019. TMO operational performance and KPIs continue to be reported to the Cabinet Performance Panel.<br><br>Dovecotes TMO has been placed under a performance improvement arrangement (via a Performance Improvement Plan agreed with Dovecotes TMO Board in March 2018), for six months due to concerns around governance and performance. An outcome of a Housing Ombudsman Inquiry was also pending at March 2018.<br>Bushbury Estate Management Board (TMO) continues its Application and Business Case to the Secretary of State and Minister of Housing , Communities and Local Government to enact the Right to Transfer of approximately 830 council freehold homes to a Preferred Transfer Partner by April 2019. The City continues in its duty to co-operate in the Right to Transfer legislative process. | Service Director – Housing<br>March 2019 |

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| *Residential Site Management Agreement (New)*<br>A review of the existing arrangements for Residential Site Management commenced in March 2018. A draft Management Agreement has been produced, but was not engrossed as at March 2018. It is anticipated a new interim Management Arrangement will be put in place by the end of Quarter 1 in 2018-2019, whilst a longer-term review of management options is undertaken in consultation with partners, residents and Wolverhampton Homes. | Service Director – Housing<br>March 2019 |
| *Housing Policies (New)*<br>**City Housing Allocations Policy** – Cabinet received a report in April 2018 to ensure the City Housing Allocations Policy with Amendments meets the new requirements of the new Homelessness Reduction Act 2018. Landlord Management Agents will be required to operate in accordance with the Amended Housing Allocation Policy. Operational measures have been put in place with the ALMO (Wolverhampton Homes) to ensure operational compliance from 1 April 2018. A further Review (including formal consultation) of the Allocations Policy, including an Equality Impact Assessment is planned by Quarter 3 I 2018-2019<br><br>**Private Housing Assistance Policy** – A new Private Housing Assistance Policy is being developed to ensure continued compliance with the Regulatory Reform (Housing Assistance) England and Wales Order 2002, Housing, Grants and Construction and Regeneration Act 1996 and the Housing Act 2004.<br><br>**Housing Right to Buy Policy** – A report to Cabinet making recommendations to revise four elements of the Right to Buy Policy is to be presented to Cabinet by June 2018 to ensure continued compliance with Housing Act 1985<br><br>**Housing Enforcement / Illegal Evictions** – There is currently no City Policy or resources in place to administer legal requirements under Protection from Eviction Act 1977 and Housing Act 1980. A proposal to resource and develop a new service offer is to be developed. The option of an interim resource arrangement with another Local Authority will also be considered.<br><br>**Prevention of Homelessness Strategy** – A draft Homelessness Strategy is being consulted upon in readiness for Members consideration in June 2018. This would meet the obligations of the Homelessness Act 2002 and Code of Guidance. | Service Director – Housing<br>March 2019 |

*Future Assurance*

A progress report on the implementation of the above actions from the key areas will be produced by Audit Services and reported to the Audit and Risk Committee during 2018-2019.

*Certification*

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. 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 during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Roger Lawrence, Leader of the Council

Date:

Keith Ireland, Managing Director

Date:

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Agenda Item No: 8

CITY OF WOLVERHAMPTON COUNCIL

# Audit and Risk Committee

11 June 2018

| | | |
|---|---|---|
| **Report title** | Annual Internal Audit Report 2017-2018 | |
| **Accountable director** | Claire Nye, Director of Finance | |
| **Accountable employee(s)** | Peter Farrow<br>Tel<br>Email | Head of Audit<br>01902 554460<br>peter.farrow@wolverhampton.gov.uk |
| **Report to be/has been considered by** | Not applicable | |

**Recommendation for noting:**

The Committee is asked to note:

1. The contents of the Annual Internal Audit Report and the overall opinion that "based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes"

## 1.0 Purpose

1.1 The purpose of this report is to provide the Audit and Risk Committee with an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

## 2.0 Background

2.1 This report gives a brief description of the role of Internal Audit, the control environment within which it operates, its compliance with the Public Sector Internal Audit Standards and a summary of the work carried out during the year to 31 March 2018.

## 3.0 Progress, options, discussion, etc.

3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

## 4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report.
(MK/30052018/F)

## 5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report.
(TS/29052018/W)

## 6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

## 7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

## 8.0 Human resources implications

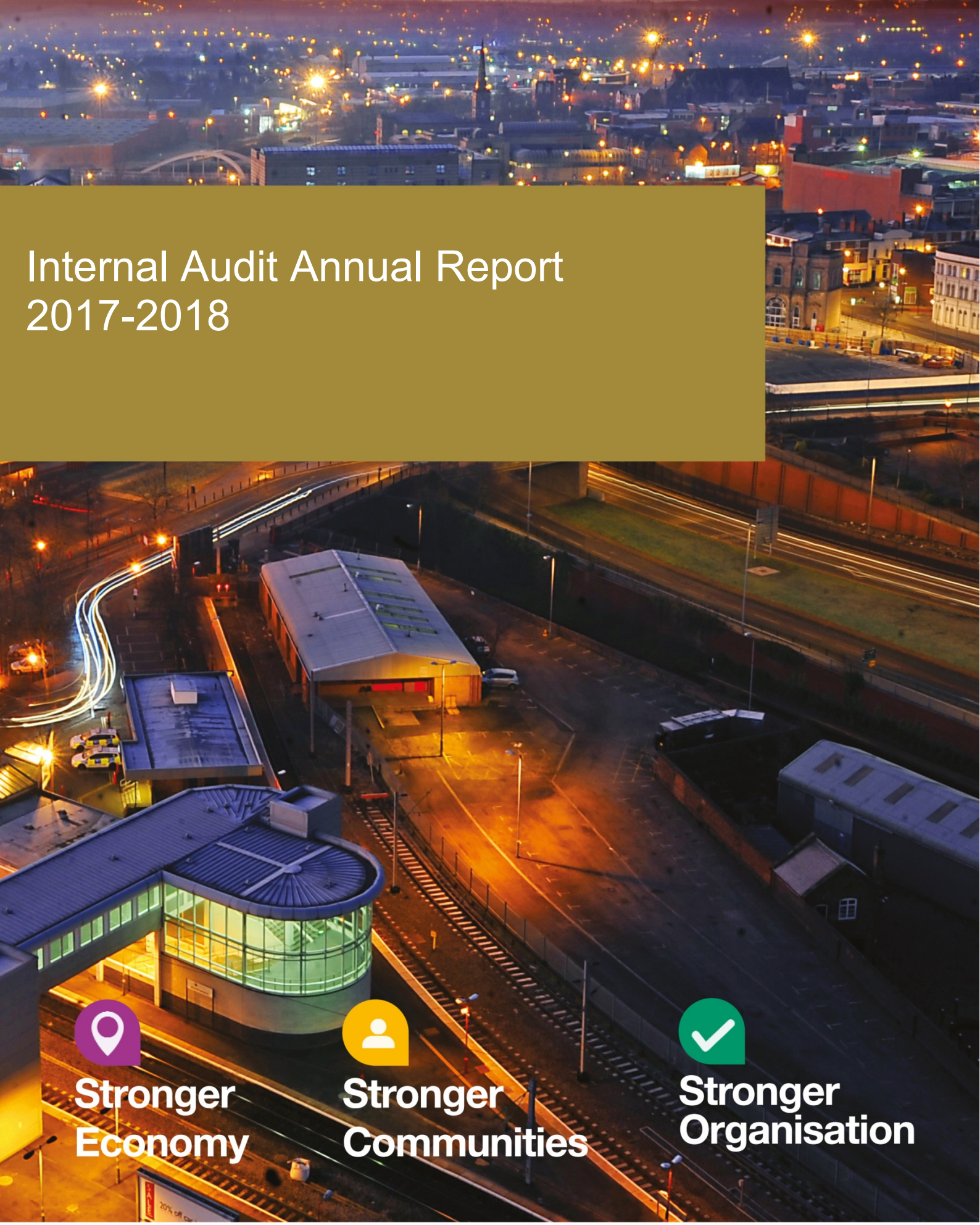
8.1 There are no human resources implications arising from the recommendations in this report.

## 9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report.

## 10.0 Schedule of background papers - None

# Internal Audit Annual Report 2017-2018



## 1. *Introduction*

Our internal audit work for the period from 1 April 2017 to 31 March 2018 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the Annual Governance Statement the Council is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the council may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement
- Other external review agencies (i.e. Ofsted, the Information Commissioner's Office)

As stated above, the framework of assurance comprises a variety of sources and not only the Council's internal audit service. However, Internal Audit holds a unique role within a local authority as the only independent source of assurance on all internal controls. Internal Audit is therefore central to this framework of assurance and is required to acquire an understanding not only of the Council's risks and its overall whole control environment but also all sources of assurance where appropriate. In this way, Internal Audit will be able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of that assurance. Also, consideration of the Council's ethics-related objectives programmes and activities, and the information technology governance is implicit in all internal audit activity.

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "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".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

### *Overall Assurance*

As the providers of internal audit to the council, we are required to provide the Managing Director and Section 151 Officer with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Managing Director and Section 151 Officer is reasonable assurance that there are no major weaknesses in the council's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2018.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.

- Any limitations which may have been placed on the scope of internal audit.

*Internal Audit Opinion*

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes.

However, throughout the year we did note a number of key control issues, either through our work or in the preparation of the Annual Governance Statement, and these are listed below.

While not fundamental to the overall opinion, we gave a 'limited' rating as a result of our internal audit work in the following areas:

| |
|---|
| WV Active Income Banking & E-Returns |
| Use of Pharmaoutcomes |
| Contract Management Arrangements - Transport Capital Programme |
| Looked After Children – fees and allowances |
| Outdoor Public Events |
| Vetting of Foster Carers |
| Stowheath Rainbow Day Nursery |
| 2 x School Audits |

At the request of the Managing Director we also undertook three lessons learnt reviews, whereby a number of issues were raised, in respect of the following projects/programmes:

- Civic Halls – Refurbishment
- Markets Relocation
- Interchange – Train Station

As appropriate, these reviews will be presented in full at the Audit and Risk Committee, and it is important that the recommendations made are similarly implemented in a full and timely manner.

**Governance issues arising from the Annual Governance Statement:**

The Council recognises that the identification, evaluation and monitoring of risks is a key aspect in the governance of the organisation. The following matters represent the most significant current governance issues that are subject to attention in order to ensure that good practice is embedded:

| |
|---|
| Savings Targets |
| Combined Authority |

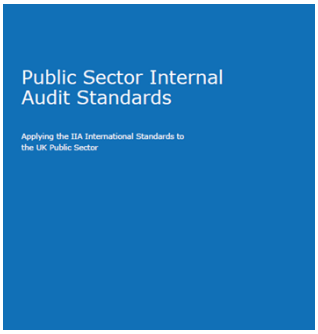
| |
|---|
| Corporate Landlord |
| Procurement, Contract Management and Monitoring |
| Cyber Security |
| Project Governance including the Civic Halls |
| General Data Protection Regulations |
| Arm's Length Management Organisation Partnership |
| Tenant Management Organisations |
| Residential Site Management |
| Housing Policies |

Further details on each of these can be found in the Annual Governance Statement.

In reaching our opinion, the following factors were taken into particular consideration:

- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed later in this report.

### *Compliance with the Public Sector Internal Audit Standards*




The internal audit service follows the Public Sector Internal Audit Standards, and the Code of Ethics that form part of the standards, as laid out in the internal audit charter approved by the Audit and Risk Committee. The quality assurance and improvement programme identified no major non-conformances with these standards and therefore the internal audit activity has conformed with the international standards for the professional practice of internal auditing. At its meeting in December 2017 the Audit and Risk Committee approved an option for the independent validation of the Council's internal audit team self-assessment. This exercise is planned for early in 2018-2019 and the results will be reported back to the Committee.

*Summary of work completed*

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning an action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

| Limited | Satisfactory | Substantial |
|---|---|---|
| There is a risk of objectives not being met due to serious control failings. | A framework of controls is in place, but controls need to be strengthened further. | There is a robust framework of controls which are applied continuously. |

*Year on year comparison*

47 pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

| Opinion | 2017-2018 | 2016-2017 | 2015-2016 |
|---|---|---|---|
| Substantial | 17 | 19 | 13 |
| Satisfactory | 21 | 10 | 35 |
| Limited | 9 | 8 | 14 |

## 2 *Summary of audit reviews completed*

The following audit reviews were completed during the 2017-2018 financial year.

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|---|---|---|---|---|---|---|---|
| | | Red | Amber | Green | Total | Number accepted | |
| Previously reported: | | | | | | | |
| Senior Officers Remuneration | High | - | - | - | - | - | N/A |
| WV Active Income Banking & E-Returns | Medium | 2 | 3 | 2 | 7 | 7 | Limited |
| Management IR35 & Interims | Medium | - | 4 | 4 | 8 | 8 | Satisfactory |
| Use of Pharmaoutcomes | Medium | - | 2 | 2 | 4 | 4 | Limited |
| Bushbury Nursery | Medium | - | 1 | 4 | 5 | 5 | Substantial |
| Uplands Junior School | Medium | - | 2 | 8 | 10 | 10 | Satisfactory |
| Spring Vale Primary School | Medium | - | 1 | 10 | 11 | 11 | Substantial |
| Bushbury Hill Primary School | Medium | - | 2 | 7 | 9 | 9 | Satisfactory |
| Stow Heath Primary School (enhanced Service) | Medium | - | 8 | 4 | 12 | 12 | Satisfactory |
| Goldthorne Primary School | Medium | - | 2 | - | 2 | 2 | Satisfactory |
| St Patricks Primary School | Medium | 7 | 24 | 2 | 33 | 33 | Limited |
| Whitgreave Infants School | Medium | - | 2 | - | 2 | 2 | Substantial |
| Contract Management Arrangements - Transport Capital Programme | Medium | 1 | 2 | - | 3 | 3 | Limited |
| Human Resources – Policy Management | Medium | - | 5 | 1 | 6 | 6 | Satisfactory |
| Looked After Children – fees and allowances | Medium | 1 | 3 | 1 | 5 | 5 | Limited |
| Payroll Overpayments | Medium | - | 2 | 2 | 4 | 4 | Satisfactory |
| Financial Decision Making Processes | High | - | - | - | - | - | N/A |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|---|---|---|---|---|---|---|---|
| | | Red | Amber | Green | Total | Number accepted | |
| Eastfield Primary School | Medium | - | 1 | 3 | 4 | 4 | Substantial |
| Fallings Park Primary School | Medium | - | 2 | 6 | 8 | 8 | Substantial |
| St. Luke's CE Primary School | Medium | - | 5 | 6 | 11 | 11 | Satisfactory |
| Lanesfield Primary School | Medium | - | 8 | 11 | 19 | 19 | Satisfactory |
| Off-Site School Visits | Medium | - | 4 | - | 4 | 4 | Satisfactory |
| Carbon Reduction Credits Scheme | High | - | 3 | - | 3 | 3 | Satisfactory |
| Merridale Primary School | Medium | - | 1 | 4 | 5 | 5 | Substantial |
| Lanesfield Primary School | Medium | | 8 | 11 | 19 | 19 | Satisfactory |
| Wood End Primary School | Medium | - | 1 | 4 | 5 | 5 | Substantial |
| Woodthorne Primary School | Medium | 6 | 17 | 1 | 24 | 24 | Limited |
| Additional salary payments for schools | Medium | - | - | - | - | - | N/A |
| Outdoor Public Events | Medium | 4 | 7 | 2 | 13 | 13 | Limited |
| Civic Centre Payment Kiosks | High | - | - | 2 | 2 | 2 | Substantial |
| Treasury Management | High | - | - | - | - | - | Substantial |
| Integrated Transport and Structural Maintenance Transport Grant 2016 | High | - | - | - | - | - | N/A |
| Troubled Families: Payment by Results – July 2017 Claim | High | - | - | - | - | - | N/A |
| Troubled Families: Payment by Results - December 2017 Claim | High | - | - | - | - | - | N/A |
| New for this quarter: | | | | | | | |
| St. Albans Primary School | Medium | - | - | 4 | 4 | 4 | Substantial |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|---|---|---|---|---|---|---|---|
| | | Red | Amber | Green | Total | Number accepted | |
| Bereavement Services Income Management Arrangements | Medium | - | 1 | 2 | 3 | 3 | Satisfactory |
| Parking Services Income Management Arrangements | Medium | | 2 | 2 | 4 | 4 | Satisfactory |
| Street Cleansing | Medium | - | 2 | 1 | 3 | 3 | Satisfactory |
| Additional Salary Payments for Schools | Medium | - | - | - | - | - | N/A – Briefing Note |
| European Regional Development Fund Projects | Medium | - | 3 | 1 | 4 | 4 | Satisfactory |
| Benefits - Universal Credits Referrals | High | - | - | - | - | - | Substantial |
| Housing Benefits | High | - | - | 2 | 2 | 2 | Substantial |
| Business Rates - Liability Changes | High | - | - | 1 | 1 | 1 | Substantial |
| Account Payable – Duplicate Payments | High | - | - | - | - | - | Substantial |
| Payroll – Occupational Schemes | High | - | 2 | 2 | 4 | 4 | Satisfactory |
| Accounts Receivable | High | - | - | - | - | - | Substantial |
| Housing Rents | High | - | 1 | - | 1 | 1 | Satisfactory |
| Local Taxes (Council Tax & NNDR) | High | - | - | 1 | 1 | - | Substantial |
| Payroll | High | - | 1 | 1 | 2 | 2 | Substantial |
| Troubled Families PBR Claim - January 2018 | High | - | - | - | - | - | N/A |
| Troubled Families PBR Claim – March 2018 & Year End | High | - | - | - | - | - | N/A |
| Stowheath Rainbow Day Nursery | Medium | 4 | 12 | - | 16 | 16 | Limited |
| Vetting of Foster Carers | Medium | 1 | 2 | 2 | 5 | 5 | Limited |
| External Funding Framework | Medium | - | 2 | - | 2 | 2 | Satisfactory |

| Auditable area | AAN Rating | Recommendations | | | | | Level of assurance |
|---|---|---|---|---|---|---|---|
| | | Red | Amber | Green | Total | Number accepted | |
| Enterprise - Strategic Stakeholder Relationship Management | High | - | 1 | 3 | 4 | 4 | Satisfactory |
| Accounts Payable | High | - | 2 | - | 2 | 2 | Satisfactory |

## 3 *On-going assurance where reports are not issued*

We provide on-going assurance throughout the year in the following areas:

*Equal Pay*
A member of the audit team is embedded in the project to provide advice on project governance and management of risks associated with the management of equal pay claims. Audit assurance is also provided around the calculation of settlement offers and the payment of claims.

*Information Governance*
We have a member of the team who sits on the Council's Information Governance Board.

*Digital Transformation Programme (DTP)*
We also have a member of the team involved in this programme which covers the Customer Engagement Platform, Master Data Management, and Business Intelligence projects. During the lifecycle of the programme we provide on-going advice on the governance of the programme and management of associated risks. We have also provided on-going support in respect of user acceptance testing in respect of each of the programme's projects.

*Pay Strategy*
We have representation on the Council's Pay Strategy Board. The purpose of the board is to ensure that all requests in respect pay and grading is approved in accordance with the Council's Collective Agreement for NJC employees.

*Counter Fraud Activities*
We continue to investigate all allegations of suspected fraudulent activity, during the year. Details of these have will be presented to the Audit and Risk Committee in a separate report, along with details of initiatives put in place in order to both raise awareness of, and tackle fraud across the Council.

## 4 *Key issues arising from our work completed in the final quarter*

There were only two limited assurance reports issued during the final quarter of the year. The details of which are provided below:

**Vetting of Foster Carers**

This audit was completed at the request of the Director for Children's Services following the recent legal case of Armes -v- Nottinghamshire County Council where the Supreme Court judged that Nottinghamshire County Council were legally liable for harm/injury to a looked after child, caused by a foster carer during their placement. The purpose of our review was to assess whether adequate checks, in accordance with The Fostering Services (England) Regulations 2011 were undertaken in respect of both internal and external foster carers.

The recruitment of internal foster carers (mainstream and connected) is the responsibility of the Council's Looked After Children's Service. In accordance with regulations, mandatory Form F's are used for the assessment of mainstream carers and Form C's for the assessment of Connected Persons carers. The full completion and retention of these forms provides the Council and the Fostering Panel with evidence that all the necessary checks have been completed.

For the recruitment of external foster carers, the Council uses the West Midlands Regional Foster Care Framework. The framework is administered by Birmingham City Council. The contract commenced in April 2016 and it has recently been extended for two years, until 4 April 2020. Use of the framework was approved by Cabinet, Resources Panel in March 2016. It allows the Council to access a range of carers at competitive prices. The Council also 'spot-purchase' non-framework foster carers when suitable providers are not available through the framework. Responsibility for vetting external foster carers lies with individual foster care agencies. However, in accordance with procedure and good practice, the Council should still obtain and retain an up to date copy of each carers Form F assessment to provide assurance that all necessary checks have been completed.

At the time of our review (January 2018), the Council had 187 looked after children placed with internal foster carers and 230 looked after children placed with external foster carers.

There were no issues with regards to the processes for internal carers. However, for externally provided placements sourced through the framework with Birmingham City Council, we found that copies of the Form F assessment confirming that all necessary checks had been completed, while not mandatory but rather good practice, were not always available. Also, that policies and procedures relating to the assessment and vetting of foster carers required review and that, while not a contractual requirement, there was no mechanism in place to ensure that the Council were promptly informed of issues or changes in the circumstances of external foster carers.

All of our recommendations were accepted and we have been working with the service area who have been able to demonstrate that these issues are being addressed.

**Stow Heath Rainbow Nursery**

An audit of the key financial controls at Rainbow Nursery, Stow Heath Primary School was undertaken at the request of the Headteacher. The nursery generates a significant amount of income and all records currently maintained to support this income were manual paper records. It is understood that the payment of Nursery fees will be integrated into a cashless payments system that is being introduced throughout the school in September 2018.

The Rainbow Children's Centre Nursery first registered in 2006. It operates from a purpose-built unit within the grounds of Stow Heath Primary School. The nursery is open each weekday from 8am until 6pm all year round, excluding public holidays. The last Ofsted inspection was undertaken 6 January 2016 and was rated as 'Good'.

The nursery offers full day care from 8.00am - 6.00pm catering for children of four months to five years of age. The nursery also runs an afterschool club for the Stow Heath Primary School and a holiday play scheme during each half term for anyone aged between four and ten years old.

Our review highlighted a number of issues including:

- We were unable to verify that there was a contract or agreement in place between the nursery and parents/carers for each child attending the nursery, after school club and the play schemes. Where contracts were in place it was found that they did not agree to the sessions attended by the children.
- Although some invoices were being raised and issued a consistent process was not being followed and it was not possible to gain assurance that all parents/carers had been issued with an invoice. In addition, invoices were not being issued on a regular basis or at the same time each month and there were variations regarding the information recorded on invoices.
- The process followed to identify arrears was time consuming as all the income records were held manually. A review of documentation in school found that it was not possible

to easily identify what parents / carers owed or what attempts had been made to recover arrears.

- Arrears were not being pursued in accordance with the Non-Payment of Fees Policy which sets out the recovery process that should be followed if payments are not received.

Details on other limited assurance reports and key issues raised during the year have already been brought to the attention of the Audit and Risk Committee through the regular Internal Audit Progress Reports.

**Follow up of previous recommendations**

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit and Risk Committee. During this quarter we have followed up recommendations in respect of the following reports:

- Transport Capital Programme – Procurement and Contract Management Arrangements (Midland Highways Alliance Framework)

The original report made four recommendations (one red and three amber) to improve the overall controls and effectiveness of contracts procured under the Framework. Whilst we understand that no new procurement exercises had been undertaken after the issue of the original report nor were likely to be commenced before the end of the current Framework, a further instance of potential non-compliance was reported to Internal Audit. However, this was rectified by Corporate Procurement and appropriate certification obtained prior to issuing the contract. Consequently, the red recommendation regarding contract signing in accordance with the Council's Contract Procedure Rules was reiterated. As no opportunity may have arisen to implement the amber recommendations since issue, we acknowledge that full implementation is understandably yet to be achieved and ongoing.

The Service Director, Head of City Transport and Corporate Procurement have provided assurance that full implementation will be achieved as part of the establishment of the new Framework arrangement, as well as ensuring compliance within any alternative procurement arrangements utilised in the future.

## 5 *Changes to the Audit Plan during the year*

The audit plan is re-profiled throughout the year as and when the risk profile of the Council changes, and in order to react to emerging issues and specific management requests.

| Audit Area | Audits on the original plan | Audit changes during the year | Revised number of audits as at end of year |
|---|---|---|---|
| Corporate | 14 | -3 | **11** |
| Key Financial Systems / Grants | 12 | 8* | **20** |
| People | 9 | - | **9** |
| Education | 18 | 5 | **23** |
| Place | 9 | 1 | **10** |
| Housing | 2 | -2 | **0** |
| **Total** | **64** | **9** | **73** |

** the increase in key financial system reviews was due to focussed reviews being carried out in addition to the annual core control reviews.*

The following audits were underway at the end of 2017-2018 and were in the process of being completed during the production of this report:

- City Development Strategic Stakeholder Relationship Management
- Main Accounting (General Ledger and Budgetary Control)
- Fixed Assets

From the work undertaken to date in these areas, there was nothing of significance that would impact upon our ability to provide an overall level of opinion. There were also a limited number of other reviews that have been rolled over into 2018-2019 and these will be reported back to the Audit and Risk Committee as appropriate.

## 6 *Audit and assurance effectiveness measures*

Our performance against the following Audit and Assurance effectiveness measures, that were prepared around the successful delivery of the audit service, is as follows:

| Audit Plan measures | |
|---|---|
| Audit reports identifying suggested areas for action, issued to auditees within two weeks of completion of fieldwork. | Approximately 70% of audit reports were issued within two weeks of the completion of audit fieldwork. A protocol has been agreed with senior managers in order to help improve on this. |
| Number of audits where time taken to complete assignment is more than 10% longer than planned. | Approximately 60% of reviews took 10% longer than anticipated, with the others completed either on target or under. In the majority of instances, reasons for audit work exceeding budget is that unforeseen issues arise which take time to resolve. However, we will continue to seek to |

| | |
|---|---|
| | improve on the time taken in completing such reviews. |
| Delivery of at least 80% of the audit plan, and an opinion which provides suitable assurance on the overall governance, risk management and control environment. | The audit plan was subject to revision during the course of the year in order to take account of emerging issues and a changing risk profile. Based on the revised number of audits as at 31 March 2018, 90% of the plan had been delivered. |
| Risk Based Audit Plan produced and available to the Council in advance of the year. | The Audit Plan was approved by the Audit and Risk Committee prior to the commencement of the new plan year. |
| Recommendations measures | |
| 90% of recommendations accepted by Council management. | All but one of the total recommendations made in the year were accepted by Council management. |
| Number of key recommendations followed up, implemented by the council by the target date. | The majority of previous key recommendations followed up had been implemented within the agreed date. Where not, these have been reported back to the Audit and Risk Committee throughout the year. |
| Relationships measure | |
| Positive feedback from completed client satisfaction surveys. | The majority of feedback was of a positive nature. |
| External Audit measure | |
| External Audit use the work of internal audit to help inform their own work. | The External Auditors continue to comment favourably on work completed by Internal Audit. |