Agenda Item **11(a)**

Wolverhampton City Council

OPEN DECISION ITEM

Audit Committee

Date **06.07.2012**

Originating Service Group(s) **DELIVERY**

Contact Officer(s)/ **PAT MAIN**

Telephone Number(s) **4410**

Title **DRAFT STATEMENT OF ACCOUNTS 2011/2012**

RECOMMENDATIONS

That Audit Committee:

(1) Note that the Assistant Director – Corporate Services (Section 151 Officer) approved the Draft Statement of Accounts 2011/2012 on 26 June 2012, as required by the Accounts and Audit Regulations.

(2) Note that the 2011/2012 Draft Statement of Accounts is to be audited by PricewaterhouseCoopers LLP during July/August, and that any material changes required as a result of the audit will be reported to the Audit Committee.

(3) Note that formal publication of the 2011/2012 Statement of Accounts is required by 30 September 2012 (Accounts and Audit Regulations 2011).

(4) Note that the Statement of Accounts incorporates a signed copy of the Annual Governance Statement as required by the Accounts and Audit Regulations 2011.

1. PURPOSE

1.1 The draft Statement of Accounts for 2011/2012, which is subject to audit, has been approved by the Assistant Director – Corporate Services (Section 151 Officer) and is appended to this report. The report provides an overview of the document, its main statements and also a brief overview of the Council's financial performance for the year, and its position at 31 March 2012.

2 BACKGROUND

2.1 The draft Statement of Accounts is required by statute (Accounts and Audit Regulations) to be prepared and approved by the Section 151 Officer by 30 June 2012. Once again the council has succeeded in meeting this very challenging deadline.

2.2 A copy of the draft Statement of Accounts is attached at Appendix A. This will now be audited by the council's appointed external auditors, PricewaterhouseCoopers, during July/August, following which they will report their findings to the Audit Committee in September. At the same time the final audited Statement of Accounts to be published by the council will be presented to the Committee.

2.3 The statutory deadline for publication of the audited Statement of Accounts is 30 September 2012.

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). 2011/2012 is the second year that the council has prepared accounts in accordance with International Financial Reporting Standards (IFRS). There were no major changes to the Code for 2011/2012, the only significant change being the inclusion of heritage assets on the balance sheet, which is essentially a book item and has no effect on the council's budgets or usable reserves.

2.5 The council has taken the opportunity to review the format of its Statement of Accounts, with the aim of improving the clarity and readability of the statements, and as a result has made a number of changes for this year:

(a) Page layout, and formatting of text and tables changed.

(b) Re-ordering and grouping of notes to the financial statements, and excluding any notes which would not contain material information.

(c) More management information, taken directly from Cabinet reports.

(d) Presentation of figures in units of £0.1M instead of £1,000 (except where the context demands a lower unit).

(e) Group statements integrated with council-only statements.

(f) Consolidation of detailed information into summary tables rather than a number of notes (for example movement in reserves, non-current assets).

3 STRUCTURE OF THE STATEMENT OF ACCOUNTS

3.1 The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, members of the council, employees and other interested parties clear information about the council's finances. In order to make the Statement of Accounts as useful as possible to its intended audiences, the Code requires:

(a) All local authority statements to follow a common pattern of presentation;

(b) Interpretation and explanation of the Statement of Accounts;

(c) The Statement of Accounts to be written in plain English as far as possible.

3.2 The Statement of Accounts comprises the following:

(a) **Introduction to the Statements**, which provides a brief overview of each of the main parts of the statement.

(b) **Financial Performance 2011/2012**: this section provides a summary of the council's financial performance for the year, as shown in Cabinet outturn reports.

(c) **The Medium Term Financial Strategy**: this section provides a summary of the council's medium term financial strategy, for each of the General Fund, the Housing Revenue Account and the Capital Programme.

(d) **Statement of Responsibilities**: this sets out the respective responsibilities of the council and the Section 151 Officer with regard to the accounts.

(e) **The Auditor's Report**: this will be provided by PricewaterhouseCoopers following the audit, and give their opinion on whether the Council's financial statements present fairly its financial position and performance for the year, and their conclusion on the council's Use of Resources arrangements.

(f) **The Financial Statements**: this section comprises the financial statements themselves, which include:

(i) **Comprehensive Income and Expenditure Statement**: this statement shows all the income, expenditure, gains and losses of the council during the year. It includes several items which are not true charges or credits to the council, as statutory provision exists to neutralise their effect on Council Tax and Housing rents.

(ii) **Balance Sheet:** this statement reports the council's financial position at the year end. It shows the balances and reserves at the council's disposal, the fixed and net current assets employed in its operations (together with summarised information on the fixed assets held), and the long-term indebtedness of the council. The Balance Sheet includes the assets and liabilities of all activities of the council but excludes all activities relating to the West Midlands Pension Fund and trust funds.

(iii) **Movement in Reserves Statement**: this statement analyses the movements across all of the council's reserves, including the General Fund and HRA balances.

(iv) **Cash Flow Statement**: this statement summarises the inflows and outflows of cash during the year.

(v) **Notes to the Core Financial Statements**: this is a series of notes that are required by statute or that give additional information on figures in the main statements. The last of these notes is the **Statement of Accounting Policies**, which sets out the policies and, where appropriate, estimation techniques used by the council in preparing its accounts.

(g) **The Housing Revenue Account (HRA) Statements**: comprising the HRA Income and Expenditure Account, the Statement of Movement in the HRA Balance, and Notes to the HRA Statements.

(h) **The Collection Fund Statements**: comprising the Collection Fund Income and Expenditure Account and the Notes to the Collection Fund Statements.

(i) **West Midlands Pension Fund Statements**: although West Midlands Pension Fund is a separate legal entity and its accounts are not consolidated with the council's, the Code requires administering bodies such as Wolverhampton to include a summarised version of the Pension Fund accounts in their financial statements.

(j) **Annual Governance Statement**: This is a statement required by the Accounts and Audit regulations that outlines the council's governance arrangements.

(k) **Glossary**: explaining some of the terms used in the financial statements, particularly those that are not part of everyday English.

4 KEY ELEMENTS OF THE 2011/2012 STATEMENT OF ACCOUNTS

4.1 The net cost of providing services, according to the Comprehensive Income and Expenditure Statement, was a surplus of £26.3M. This compares to a deficit of £311.1M for 2010/2011. It is important to remember that this includes many transactions which do not ultimately impact on the council's true 'bottom-lines', which are given in paragraph 4.5.

4.2 The Comprehensive Income and Expenditure Statement also includes a number of other gains and losses on council assets/liabilities. These relate to revaluations of fixed assets and notional gains and losses on the council's 'share' of West Midlands Pension Fund's assets and liabilities. These items are responsible for very significant year-on-year changes: in 2011/2012 they amounted to a net loss of £58.3M, while in 2010/2011 they caused a net gain of £50.7M. Despite the size of these numbers and their significant effect on the accounts, it must be remembered that they are only included in order to comply with accounting requirements, and it is extremely unlikely that the council would realise the benefits or losses on any of these items in the foreseeable future, if ever.

4.3 The net worth of the council as shown on the Balance Sheet has decreased to £632.8M from £664.8M. The major reasons for this decrease are set out below:

	Comments	Change (£M)
<u>Increases in Net Worth</u>		
Fixed Assets	Expenditure on capital programme and revaluations	124.0
Borrowing	Repayment of borrowing by Government under HRA self-financing settlement	47.2
<u>Decreases in Net Worth</u>		
Fixed Assets	Depreciation and Impairment Charges for the Year (*)	(95.5)
Pension Liability	Due to changes in Actuarial assumptions and calculations (*)	(75.6)
Temporary Investments	Due to normal fluctuations in investment balances resulting from treasury management activity	(19.2)
Debtors/Creditors	Reduction in debtors/increase in creditors	(24.7)

(*) Statutory provisions exist to neutralise the impact of these items on the council's resources available for revenue or capital expenditure.

4.4 The net decrease in the council's reserves for the year, as shown in the Movement in Reserves Statement, was £32.0M. This is made up of an increase of £5.6M on usable reserves, and a decrease of £37.6M on unusable reserves (unusable reserves are accounting technicalities, usually reflecting statutory adjustments). This compares to a net decrease of £260.4M in 2010/2011 (£51.4M increase in usable reserves; £311.8M decrease in unusable reserves).

4.5 The Movement in Reserves Statement also shows the true movement in the council's General Fund and HRA balances for 2011/2012: these were nil and an increase of £5.4M respectively. The General Fund Balance stands at £39.5M at 31 March 2012, and the HRA balance at £10.5M.

4.6 The HRA Income and Expenditure Account shows a surplus of £13.5M for the year compared to 2010/2011's deficit of £397.7M. However, following the adjustments outlined in the Statement of Movement on the HRA Balance, the true movement in the level of available HRA revenue resources for the year is an increase of £5.4M (2010/2011: an increase of £1.5M).

4.7 The HRA reserve stands at £10.5M at 31 March 2012. The funds in this reserve can only be used to finance revenue expenditure that falls to be scored against the HRA in accordance with statute.

4.8 The Collection Fund generated a deficit for the year of £0.9M. This will be distributed between the three precepting authorities in 2011/2012, with the council being responsible for approximately 90% of this sum.

4.9 The Group Comprehensive Income and Expenditure Statement shows a net surplus on the provision of services for the year of £28.8M, compared to a net loss of £304.5M in 2010/2011. The net gain for 2011/2012 is made up of the council's net gain of £26.3M and a net gain for Wolverhampton Homes of £2.5M (2010/2011: net loss of £311.1M and gain of £6.6M respectively).

5. FINANCIAL IMPLICATIONS

5.1 The statement of accounts was prepared by staff in the council's Strategic Finance department, the costs of which were included in the 2012/2013 approved budget.

5.2 The statement of accounts is the most important financial document that the council produces. Unlike other key financial documents such as the budget book, a large proportion of its format and content is effectively defined in law. The statements, and the forthcoming audit of those statements by PwC, are fundamental to the processes of accountability and transparency in the council's finances.

[DK/18062012/O]

6. LEGAL IMPLICATIONS

6.1 The Accounts and Audit Regulations require the 2011/2012 Draft Statement of Accounts to be produced in accordance with proper practice. This is the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 30 June 2012 and published by 30 September 2012.

[MW/22062012/J]

7. EQUALITY IMPLICATIONS

7.1 There are no equality implications arising from this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1 There are environmental implications arising from this report.

9. SCHEDULE OF BACKGROUND PAPERS

2011/2012 Statement of Accounts Progress Update, reports to Audit (Final Accounts Monitoring and Review) Sub Committee, 27 February, 1 April and 30 April 2012.

WOLVERHAMPTON CITY COUNCIL

STATEMENT OF ACCOUNTS

2011/2012

CONTENTS

1. INTRODUCTION TO THE STATEMENTS

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 things which have to be in the accounts according to 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 of the council's internal reporting and decision-making is based purely on accounts prepared under the legal rules, and 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. In particular, it should be remembered that figures which have been prepared under the accounting rules may have no practical meaning or use in the context of how the council actually manages its finances.

The 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 things that may affect the council's financial performance in the future.

Section 2 provides a summary of the council's financial performance for 2011/2012, and a summary of changes to accounting policies and key items of interest in the accounts. Following on from this, Section 3 provides an outline of the council's medium term financial strategy, including its budget for 2012/2013 and forecasts through to 2016/2017.

Section 4 contains the statement of responsibilities, and sets out the roles and responsibilities of the authority and of the responsible (finance) officer in preparing the statement of accounts. The independent auditor's report is included at section 5. This report draws readers' attention to any important information they might need to take into account when reading the statements.

1. INTRODUCTION TO THE STATEMENTS

Section 6 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. It is important to remember that this statement is prepared entirely in accordance with accounting rules, which differ in several ways from the legal rules used to calculate budgets and available balances.

The Balance Sheet – this shows all of the council's assets, liabilities and reserves at the end of the financial year. Assets are either things that the council owns and can use or sell in the future, or money that it is owed by other people. Liabilities are money owed by the council to other people. 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 of 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 this one doesn't include adjustments to comply with the accounting concept of accruals.

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

Note 1 – Financial Performance for 2011/2012 – this note provides more information on the council's financial performance for 2011/2012. Crucially, it provides figures in the format that councillors and senior officers use when making decisions about the running of the council (none of the four main statements described above are ever used in decision-making because of the numerous discrepancies between them and the legal accounts).

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 – Debtors and Creditors – this note summarises how much money was owed to the council at the end of the year, and how much the council owed other people.

Note 4 – 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 people, 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 5 – 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 6 – 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 7 – Financial Instruments – this note provides information about the council's financial instruments, which are assets or liabilities entered into under contracts.

Note 8 – Members of the Wolverhampton City Council Group and Related Parties – the council has relationships with a number of other organisations that readers should be aware of when reading the accounts, and this note provides information about those relationships.

Note 9 – Trust Funds – this note provides information about the trust funds that the council manages on behalf of other people.

Note 10 – 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 actually uses to manage its finances. This detailed note analyses all of those differences for interested readers.

Note 11 – 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 about applying the policies that had to be made when preparing the statements.

1. INTRODUCTION TO THE STATEMENTS

Section 7 provides a set of financial statements and associated notes relating to the Housing Revenue Account. By law, the council has to 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 8 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.

Section 9 provides the financial statements of West Midlands Pension Fund. These are completely separate from the council's accounts, but because the council is the administering body it has 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 10 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 11, which describes many of the technical accounting terms and abbreviations used in these statements.

Note on Group Accounts

Because the council owns another organisation (Wolverhampton Homes), it has to produce group accounts. These combine the accounts of the two organisations and show them as if they were one. Throughout the financial statements (Section 6), numbers in italics relate to the group, while non-italic numbers relate to the council only. Usually, these are combined in the same table, but occasionally, owing to space they are shown in completely separate tables. Where there is only one figure given, this means that the figure is the same for the group and the council.

2. FINANCIAL PERFORMANCE 2011/2012

Outturn 2011/2012

General Fund

2011/2012 was a very challenging year for the council's General Fund, with savings targets of £36.0M included in the approved budget. Nonetheless, the council was able to successfully meet these challenging targets, resulting in a break even position for the year overall. However, when net transfers to/from earmarked reserves are taken into account, total usable General Fund reserves fell from £87.7M to £81.9M. The following table analyses the outturn for 2011/2012, compared to budget, by directorate.

	Budget 2011/2012 £M	Outturn 2011/2012 £M	Variation Over/(Under) £M	%
Community	145.433	144.290	(1.143)	-0.79%
Delivery	39.635	36.373	(3.262)	-8.23%
Education and Enterprise	50.840	76.907	26.067	51.27%
Office of the Chief Executive	2.314	2.399	0.085	3.67%
Corporate Budgets	6.126	(15.621)	(21.747)	-355.00%
Net Budget Requirement	**244.348**	**244.348**	**-**	**-**
Formula Grant	(145.030)	(145.030)	-	-
Council Tax	(93.518)	(93.518)	-	-
Collection Fund Surplus	(0.890)	(0.890)	-	-
Use of Reserves	(4.910)	(4.910)	-	-
Total Resources	**(244.348)**	**(244.348)**	**-**	**-**
Net (Surplus)/Deficit	**-**	**-**	**-**	**-**

Housing Revenue Account

There was a surplus of £5.4M on the Housing Revenue Account (HRA) for the year, compared to a budgeted surplus of £1.0M, increasing the HRA balance to £10.5M, in excess of its targeted contingency balance of £4.0M. This places the HRA in a relatively strong position going into HRA self-financing (which is discussed in further detail below). The following table provides a high level summary of the HRA outturn compared to budget.

2. FINANCIAL PERFORMANCE 2011/2012

	Budget 2011/2012 £M	Outturn 2011/2012 £M	Variation Over/(Under) £M	Variation Over/(Under) %
Income	(84.595)	(85.024)	(0.429)	0.51%
Expenditure	63.791	66.457	2.666	4.18%
Net Cost of Services	**(20.804)**	**(18.567)**	**2.237**	**-10.75%**
Net Cost of Borrowing and Investments	19.848	13.171	(6.677)	-33.64%
Deficit/(Surplus) for the Year	**(0.956)**	**(5.396)**	**(4.440)**	**464.44%**

Capital Programme

Capital expenditure by the council during 2011/2012 totalled £159.6M, as set out in the following table.

Expenditure	Approved Budget £M	Outturn £M	Variation Over/(Under) £M
Housing Services			
Housing Revenue Account	43.839	41.132	(2.707)
Private Sector Housing (General Fund)	3.236	2.596	(0.640)
	47.075	**43.728**	**(3.347)**
General Fund (Non-Housing)			
Delivery	5.519	15.155	9.636
Community	16.962	15.023	(1.939)
Education and Enterprise	110.896	85.689	(25.207)
Assistant Chief Executive	0.019	0.005	(0.014)
	133.396	**115.872**	**(17.524)**
Total Expenditure	**180.471**	**159.600**	**(20.871)**

Significant Changes in Accounting Policies

There has been only one significant change to accounting policies this year, which relates to "heritage assets". Heritage assets are assets which the council holds because of their historic or cultural worth. The change is that they now need to be valued and shown on the council's balance sheet, whereas previously they were not. There has been no impact on the council's statutory accounts. Further details can be found in note 11B, and information about the value of heritage assets is in Note 5.

Items of Interest in the Accounts

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

Exceptional Item: Housing Revenue Account (HRA) Self-Financing

Until 31 March 2012, one of the key elements of the HRA was HRA Subsidy, which was a national system for pooling and redistributing local authority housing resources. This took the form of an annual calculation set by the Government, based on assumed need to spend and assumed income levels. Councils either paid into the pool, or received money back from it, based on the result of that calculation. Over the last few years, Wolverhampton has paid into the pool.

From 2012/2013, HRA Subsidy was abolished, and replaced with a one-off debt settlement between the Government and participating local authorities. The settlement transaction took place on 28 March 2012, with the council having £47.7M of debt paid off by the Government, along with £12.1M of associated premiums for early redemption. The council has accounted for this transaction as an exceptional item, and further detail can be found in Note 2H to the Financial Statements.

Provisions and Contingent Liabilities

The council's total level of provisions increased by £7.9M (net) over the course of the year, largely due to an increase of £9.1M in the Capitalisation Risks provision. Total provisions at 31 March 2012 stood at £34.2M: further details are provided at Note 4A to the Financial Statements.

The council also has a number of contingent liabilities, with two new contingent liabilities relating to the i54 development arising during 2011/2012, details of which are provided at Note 4B.

Capital Expenditure

The council once again successfully managed a large capital expenditure programme in 2011/2012, resulting in additions to non-current assets of £123.2M, along with other capital expenditure of £36.4M. The main additions were on council dwellings (£41.0M), mostly due to spend under the council's Decent Homes programme, and other land and buildings (£68.4M), which reflects a number of major investments including Building Schools for the Future, the Co-location Programme, and the new Bert Williams leisure centre. There is more information on capital expenditure for the year in Note 1 to the Financial Statements, while information about non-current assets held by the council can be found in Note 5.

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 increased by £75.6M during 2011/2012, made up of a growth of £83.6M in liabilities offset by a growth of £8.0M in assets. The main reasons for the net movement were losses of £68.5M resulting from changes in actuarial assumptions, net interest payable of £11.8M, and other net income of £4.7M. Note 6 to the Financial Statements provides further information on employee pensions.

In practice, the value of the net pensions liability is not entirely meaningful, because pensions 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 11D to the Financial Statements.

3. THE MEDIUM TERM FINANCIAL STRATEGY

General Fund

The council approved its 2012/2013 General Fund budget and medium term financial strategy for the period to 2016/2017 on 1 March 2012. The 2012/2013 budget incorporated Council Tax frozen at 2011/2012 levels, and was balanced after savings of £21.141M and the use of £0.956M of specific reserves. The following tables show the 2012/2013 budget in terms of changes from the previous year, and how the budget is funded.

	£M
Net Budget Requirement 2011/2012	**244.348**
Pay Related Pressures	1.101
Treasury Management	(0.978)
Budget Pressures	
Inflationary	1.190
Demand	6.831
Development	1.725
Savings (Prior Years' Full Year Effect)	
List One	0.380
List Two A	(0.310)
List Two B	(0.787)
Cuts in Grants	(0.566)
Savings	
List One	(9.571)
List Two A	(2.279)
List Two B	(2.223)
Other Savings Opportunities	(5.785)
Net Changes Arising from Changes in Specific Grants	(0.999)
Net Budget Requirement 2012/2013	**232.077**

3. THE MEDIUM TERM FINANCIAL STRATEGY

	£M
Corporate Resources	
Council Tax	94.243
Collection Fund Surplus	0.071
Formula Grant/Retained Business Rates	136.807
Use of General Balances	0.956
Total Resources	**232.077**

The medium term position remains very challenging for the council, with forecasts indicating rising budget deficits year on year, amounting to £23.007M by 2016/2017. This takes into account £49.401M of proposed savings and savings to be identified. Deficits of this size mean that the council must develop and pursue a robust strategy to bring the budget back into balance over the medium term. The table on the following page analyses the council's forecast expenditure requirements and resources over the period to 2016/2017.

3. THE MEDIUM TERM FINANCIAL STRATEGY

	2012/2013 Forecast £M	2013/2014 Forecast £M	2014/2015 Forecast £M	2015/2016 Forecast £M	2016/2017 Forecast £M
Previous Year's Net Budget Requirement (Before Specific Grants and Use of Reserves)	**607.794**	**602.198**	**617.435**	**618.851**	**628.206**
Projected Changes					
Pay Related Pressures	1.101	2.493	2.425	5.348	5.508
Treasury Management	(0.978)	3.770	2.000	2.224	2.521
Budget Pressures					
Pressures (Inflationary)	1.190	3.164	3.355	3.633	3.633
Pressures (Demand and Demography)	6.831	1.595	3.745	2.185	2.185
Developments	1.725	0.454	0.027	(0.150)	(0.117)
Increased Expenditure Reflecting Increased Specific Grants	5.676	16.000	-	-	-
Savings Proposals					
Full Year Effect of Prior Years' Savings	(1.283)	2.634	(0.711)	(0.049)	-
List One (Mainstream Funding)	(9.571)	(3.575)	(0.425)	1.600	-
List Two (A)	(2.279)	(0.505)	-	-	-
List Two (B)	(2.223)	(1.235)	-	-	-
Savings to be Identified Following Cuts in Council Tax Benefit Grant	-	(2.808)	-	-	-
Other Savings Opportunities to be Pursued/Validated	(5.785)	(6.750)	(9.000)	(5.436)	(2.000)
Total Projected Changes	**(5.596)**	**15.237**	**1.416**	**9.355**	**11.730**
Projected 2012/2013 Net Budget Requirement (Before Specific Grants and Use of Reserves)	**602.198**	**617.435**	**618.851**	**628.206**	**639.936**
Specific Grants	(370.121)	(381.747)	(382.514)	(383.281)	(384.048)
Projected 2012/2013 Net Budget Requirement (Before Use of Reserves)	**232.077**	**235.688**	**236.337**	**244.925**	**255.888**
Projected Resources					
Formula Grant/Retained Business Rates	(136.807)	(135.796)	(126.737)	(124.859)	(127.414)
Council Tax	(94.243)	(96.608)	(99.033)	(101.519)	(104.067)
Enterprise Zone Business Rates	-	(0.250)	(1.200)	(1.300)	(1.400)
Collection Fund Surplus	(0.071)	-	-	-	-
Use of Specific Reserve	(0.956)	-	-	-	-
Total Projected Resources	**(232.077)**	**(232.654)**	**(226.970)**	**(227.678)**	**(232.881)**
Projected Cumulative Budget Deficit	**-**	**3.034**	**9.367**	**17.247**	**23.007**

3. THE MEDIUM TERM FINANCIAL STRATEGY

Housing Revenue Account

2012/2013 is a very significant year for the Housing Revenue Account (HRA), being the first year in which annual housing subsidy calculations have been abolished, marking a move to 'self-financing'. The council's first HRA budget under the new financing regime was approved in February 2012. The budget included an average rent increase of 5.6%, changes in service charges of 0 - 23%, and a freeze in management and maintenance allowances. The table below shows the approved budget for 2012/2013, along with forecasts for the following two years. While the medium-term pressures for the HRA appear to be less severe than those facing the General Fund, it is important to note that the below forecasts assume that rents will continue to rise at above-inflationary rates.

	Budget 2012/2013 £M	Forecast 2013/2014 £M	Forecast 2014/2015 £M
Income			
Gross Rents - Dwellings	(82.666)	(91.039)	(95.415)
Gross Rents - Non Dwellings	(1.552)	(1.611)	(1.669)
Charges to Tenants for Services and Facilities	(4.854)	(5.106)	(5.064)
Total Income	**(89.072)**	**(97.756)**	**(102.148)**
Expenditure			
Management and Maintenance	45.989	46.168	46.409
Depreciation	21.949	21.908	21.861
Total Expenditure	**67.938**	**68.076**	**68.270**
Net Financing Costs	20.354	30.680	35.878
(Surplus) / Deficit for the Year	**(0.780)**	**1.000**	**2.000**

3. THE MEDIUM TERM FINANCIAL STRATEGY

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 people, 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 Building Schools for the Future, Decent Homes, City Centre Regeneration and the i54 business park. The table below shows the council's capital programme for the next five years, as approved by the council in March 2012.

	2012/2013 £M	2013/2014 £M	2014/2015 £M	2015/2016 £M	2016/2017 £M	TOTAL £M
Projected Expenditure	**182.883**	**120.589**	**77.569**	**28.284**	**26.238**	**435.563**

The next table lists some of the main projects in 2012/2013:

Project	Forecast Expenditure 2012/2013 £M
Delivery	
Fleet Services	4.2
ICT Developments	3.3
Facilities Management	0.8
Markets Investment	0.7
Energy Efficiency Measures	0.6
Provision for Future Rolling Programmes	0.5
Recycling and Waste Efficiency Initiatives	0.3
Catering Services	0.2
	10.6
Community	
Sports Investment Strategy	2.5
Parks Refurbishment Programme	1.7
Youth Zone	1.6
Residential Care for Children and Young People	1.2
Community Hubs	1.0

3. THE MEDIUM TERM FINANCIAL STRATEGY

Project	Forecast Expenditure 2012/2013 £M
Electronic Social Care Records	0.8
Adult Social Care - other projects	0.6
	9.3
Education and Enterprise	
Building Schools for the Future	42.1
City Centre Regeneration Initiatives	14.6
Schools Modernisation, Suitability and Condition	13.1
i54 Access & Infrastructure	9.6
Highways - West Midlands Major Schemes	8.0
Private Sector Housing	4.9
Property Management - Other projects	3.3
Highways - Network Development Programme	3.2
Highways - Structural Maintenance	3.1
Remediation of contaminated land	2.4
Corporate Asset Management Initiatives	1.3
Targeted Disposals Programme	1.0
Wolverhampton City Centre Interchange	0.9
Other Partnerships	0.3
Civic Halls & Museums	0.4
	108.2
Housing Revenue Account	
Decent Homes Stock Condition	28.8
Major Stock Condition Improvements	20.0
Other Stock Condition Improvements	3.8
Adaptations for People with Disabilities	1.3
Service Enhancements and Miscellaneous	0.4
Estate Remodelling	0.2
Other Improvements to the Public Realm	0.2
	54.7
GRAND TOTAL	**182.9**

3. THE MEDIUM TERM FINANCIAL STRATEGY

Finally, the following table shows how the council is planning to fund the projects listed above:

Source of Funding	Forecast Expenditure 2012/2013 £M
Borrowing	78.1
Grants and Contributions	91.7
Capital Receipts	3.2
Reserve Funds	9.9
TOTAL	**182.9**

4. STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The council is required to:

(i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Assistant Director – Corporate Services (Section 151 Officer).

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

(iii) Approve the Statement of Accounts.

The Assistant Director – Corporate Services (Section 151 Officer)'s Responsibilities

The Assistant Director – Corporate Services (Section 151 Officer) is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Director – Corporate Services (Section 151 Officer) 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 Assistant Director – Corporate Services (Section 151 Officer) 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.

4. STATEMENT OF RESPONSIBILITIES

Certification of the Assistant Director – Corporate Services (Section 151 Officer)

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 2012 and its income and expenditure for the year ended the same date.

Pat Main

Assistant Director – Corporate Services (Section 151 Officer)

26 June 2012

5. AUDITOR'S REPORT

To follow.

6. THE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement (Council only)

2010/2011					2011/2012		
Gross Expenditure £M	Gross Income £M	Net Expenditure £M		Note	Gross Expenditure £M	Gross Income £M	Net Expenditure £M
128.3	(53.3)	75.0	Adult Social Care		128.6	(53.9)	74.7
14.7	(3.6)	11.1	Central Services to the Public		19.1	(4.2)	14.9
342.1	(267.2)	74.9	Education and Children's Services		327.9	(240.7)	87.2
4.7	-	4.7	Corporate and Democratic Core		4.6	(0.1)	4.5
30.4	(10.7)	19.7	Cultural and Related Services		31.4	(9.8)	21.6
29.4	(7.5)	21.9	Environment and Regulatory Services		28.3	(7.0)	21.3
18.0	(7.0)	11.0	Planning Services		20.7	(3.9)	16.8
41.2	(5.0)	36.2	Highways and Transport Services		26.4	(4.9)	21.5
83.5	(79.9)	3.6	Housing Services		88.3	(90.5)	(2.2)
404.4	-	404.4	- Exceptional Item: Housing Revaluation	2H	-	-	-
-	-	-	- Exceptional Item: HRA Self-Financing Settlement	2H	12.1	(59.8)	(47.7)
161.9	(156.8)	5.1	Non-distributed Costs		172.6	(170.3)	2.3
			Other Exceptional Items				
6.0	-	6.0	- Contribution to Provision	2H	10.1	-	10.1
(63.8)	-	(63.8)	- Pensions Indexation	2H	-	-	-
1,200.8	**(591.0)**	**609.8**	**Net Cost of Services**		**870.1**	**(645.1)**	**225.0**
12.8	-	12.8	Levies		13.6	-	13.6
2.1	-	2.1	Payments to the Housing Capital Receipts Pool		2.4	-	2.4
-	(2.5)	(2.5)	(Gains)/Losses on the Disposal of Non-current Assets		2.0	(6.0)	(4.0)

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

2010/2011 Gross Expenditure £M	2010/2011 Gross Income £M	2010/2011 Net Expenditure £M			2011/2012 Gross Expenditure £M	2011/2012 Gross Income £M	2011/2012 Net Expenditure £M
-	-	-	External Trading Organisations		0.3	(0.5)	(0.2)
28.5	-	28.5	Interest Payable		28.2	-	28.2
18.4	-	18.4	Pensions Interest Cost and Expected Return on Pensions Assets		56.5	(44.7)	11.8
-	(0.7)	(0.7)	Interest Receivable		-	(0.6)	(0.6)
-	(1.7)	(1.7)	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		-	(0.1)	(0.1)
-	-	-	Other Investment Income		-	(0.6)	(0.6)
-	(93.5)	(93.5)	Council Tax		-	(93.1)	(93.1)
-	(125.9)	(125.9)	National Non-domestic Rates		-	(110.8)	(110.8)
-	(45.8)	(45.8)	Unringfenced Revenue Grants Receivable		-	(37.7)	(37.7)
-	(90.4)	(90.4)	Capital Grants Receivable		-	(60.2)	(60.2)
1,262.6	**(951.5)**	**311.1**	**(Surplus) or Deficit on the Provision of Services**		**973.1**	**(999.4)**	**(26.3)**
-	(0.7)	(0.7)	(Surplus) or Deficit on Revaluation of Non-current Assets		-	(10.2)	(10.2)
-	(50.0)	(50.0)	Actuarial (Gains) and Losses on Pension Assets and Liabilities		68.5	-	68.5
1,262.6	**(1,002.2)**	**260.4**	**Total Comprehensive Income and Expenditure**		**1,041.6**	**(1,009.6)**	**32.0**

Comprehensive Income and Expenditure Statement (Group)

2010/2011 Gross Expenditure £M	2010/2011 Gross Income £M	2010/2011 Net Expenditure £M		Note	2011/2012 Gross Expenditure £M	2011/2012 Gross Income £M	2011/2012 Net Expenditure £M
128.2	(53.3)	74.9	Adult Social Care		128.6	(53.9)	74.7
14.5	(2.4)	12.1	Central Services to the Public		19.1	(4.0)	15.1
342.0	(267.2)	74.8	Education and Children's Services		327.9	(240.7)	87.2
4.7	-	4.7	Corporate and Democratic Core		4.6	(0.1)	4.5
30.3	(10.6)	19.7	Cultural and Related Services		31.4	(9.8)	21.6
29.4	(7.5)	21.9	Environment and Regulatory Services		28.3	(7.0)	21.3
18.0	(7.0)	11.0	Planning Services		20.7	(3.9)	16.8
41.2	(3.8)	37.4	Highways and Transport Services		26.4	(4.8)	21.6
89.5	(89.3)	0.2	Housing Services		174.8	(180.4)	(5.6)
404.4	-	404.4	- Exceptional Item: Housing Revaluation	2H	-	-	-
-	-	-	- Exceptional Item: HRA Self-Financing Settlement	2H	12.1	(59.8)	(47.7)
162.3	(156.8)	5.5	Non-distributed Costs		172.6	(169.5)	3.1
			Exceptional Items				
6.0	-	6.0	- Contribution to Provision	2H	10.1	-	10.1
(70.0)	-	(70.0)	- Pensions Indexation	2H	-	-	-
1,200.5	**(597.9)**	**602.6**	**Net Cost of Services**		**956.6**	**(733.9)**	**222.7**
12.8	-	12.8	Levies		13.6	-	13.6
2.1	-	2.1	Payments to the Housing Capital Receipts Pool		2.4	-	2.4
-	(2.5)	(2.5)	(Gains)/Losses on the Disposal of Non-current Assets		2.0	(6.0)	(4.0)

Comprehensive Income and Expenditure Statement (Group) (Continued)

2010/2011					2011/2012		
Gross Expenditure £M	Gross Income £M	Net Expenditure £M			Gross Expenditure £M	Gross Income £M	Net Expenditure £M
-	-	-	External Trading Organisations		0.3	(0.5)	(0.2)
29.2	-	29.2	Interest Payable		28.2	-	28.2
18.4	-	18.4	Pensions Interest Cost and Expected Return on Pensions Assets		61.6	(50.0)	11.6
-	(0.8)	(0.8)	Interest Receivable		-	(0.6)	(0.6)
-	(1.7)	(1.7)	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		-	(0.1)	(0.1)
-	-	-	Other Investment Income		-	(0.6)	(0.6)
-	(93.5)	(93.5)	Council Tax		-	(93.1)	(93.1)
-	(125.9)	(125.9)	National Non-domestic Rates		-	(110.8)	(110.8)
-	(45.8)	(45.8)	Unringfenced Revenue Grants Receivable		-	(37.7)	(37.7)
-	(90.4)	(90.4)	Capital Grants Receivable		-	(60.2)	(60.2)
1,263.0	**(958.5)**	**304.5**	**(Surplus) or Deficit on the Provision of Services**		**1,064.7**	**(1,093.5)**	**(28.8)**
-	(0.7)	(0.7)	(Surplus) or Deficit on Revaluation of Non-current Assets		-	(10.2)	(10.2)
-	(55.9)	(55.9)	Actuarial (Gains) and Losses on Pension Assets and Liabilities		72.0	-	72.0
1,263.0	**(1,015.1)**	**247.9**	**Total Comprehensive Income and Expenditure**		**1,136.7**	**(1,103.7)**	**33.0**

6. THE FINANCIAL STATEMENTS

Balance Sheet

31 March 2011				31 March 2012	
Council £M	***Group £M***		**Note**	**Council £M**	***Group £M***
1,595.9	*1,595.9*	Property, Plant and Equipment	5	1,631.2	*1,631.2*
17.7	*17.7*	Investment Property	5	18.1	*18.1*
0.9	*0.9*	Intangible Assets	5	1.4	*1.4*
11.1	*11.1*	Heritage Assets	5	11.1	*11.1*
16.8	*16.8*	Non-current Investments		16.9	*16.9*
0.1	*0.1*	Non-current Debtors		0.5	*0.5*
1,642.5	***1,642.5***	**Total Non-current Assets**		**1,679.2**	***1,679.2***
27.8	*27.8*	Current Investments		8.6	*8.6*
0.6	*0.6*	Inventories		0.5	*0.5*
64.6	*64.1*	Current Debtors	3	52.4	*50.7*
1.9	*8.5*	Cash and Cash Equivalents		2.6	*14.1*
94.9	***101.0***	**Total Current Assets**		**64.1**	***73.9***
(16.2)	*(16.2)*	Current Borrowing		(13.7)	*(13.7)*
(75.1)	*(78.4)*	Current Creditors	3	(87.1)	*(91.0)*
(26.3)	*(26.3)*	Current Provisions	4A	(34.2)	*(34.2)*
(117.6)	***(120.9)***	**Total Current Liabilities**		**(135.0)**	***(138.9)***
(530.4)	*(530.4)*	Non-current Borrowing		(481.0)	*(481.0)*
(367.8)	*(382.3)*	Net Pension Liability	6	(443.4)	*(461.9)*
(11.5)	*(11.5)*	Capital Grants Received in Advance		(8.5)	*(8.5)*
(45.3)	*(45.2)*	Other Non-current Liabilities		(42.6)	*(42.6)*
(955.0)	***(969.4)***	**Total Non-current Liabilities**		**(975.5)**	***(994.0)***
664.8	***653.2***	**Net Assets**		**632.8**	***620.2***

Balance Sheet (Continued)

31 March 2011 Council £M	31 March 2011 *Group £M*		Note	31 March 2012 Council £M	31 March 2012 *Group £M*
(39.5)	*(39.5)*	General Fund Balance	10B, 10C	(39.5)	*(39.5)*
(63.5)	*(63.5)*	General Fund Earmarked Reserves	10B, 10C	(63.6)	*(63.6)*
(5.1)	*(5.1)*	Housing Revenue Account Balance	10B, 10C	(10.5)	*(10.5)*
(4.6)	*(4.6)*	Major Repairs Reserve	10B, 10C	(5.2)	*(5.2)*
(1.8)	*(1.8)*	Capital Receipts Reserve	10B, 10C	(2.3)	*(2.3)*
(37.1)	*(37.1)*	Capital Grants Unapplied Account	10B, 10C	(36.1)	*(36.1)*
-	*11.6*	Reserves of Subsidiary	10B, 10C	-	*12.6*
(151.6)	***(140.0)***	**Total Usable Reserves**		**(157.2)**	***(144.6)***
5.3	*5.3*	Short-term Accumulating Compensated Absences Account	10B, 10C	6.2	*6.2*
(10.4)	*(10.4)*	Available-for-sale Financial Instruments Reserve	10B, 10C	(10.4)	*(10.4)*
(610.6)	*(610.6)*	Capital Adjustment Account	10B, 10C	(650.1)	*(650.1)*
(1.2)	*(1.2)*	Collection Fund Adjustment Account	10B, 10C	0.1	*0.1*
3.0	*3.0*	Financial Instruments Adjustment Account	10B, 10C	2.9	*2.9*
367.8	*367.8*	Pensions Reserve	10B, 10C	443.4	*443.4*
(267.1)	*(267.1)*	Revaluation Reserve	10B, 10C	(267.7)	*(267.7)*
(513.2)	***(513.2)***	**Total Unusable Reserves**		**(475.6)**	***(475.6)***
(664.8)	***(653.2)***	**Total Reserves**		**(632.8)**	***(620.2)***

Movement in Reserves Statement – 2011/2012

(For a detailed breakdown of the figures in this Statement, see Note 10B)

	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	Total Usable Reserves £M	Unusable Reserves £M	TOTAL (Council) £M	*Reserves of Subsidiary £M*	*TOTAL (Group) £M*
Balance Brought Forward	**(39.5)**	**(63.5)**	**(5.1)**	**(4.6)**	**(1.8)**	**(37.1)**	**(151.6)**	**(513.2)**	**(664.8)**	***11.6***	***(653.2)***
Surplus or Deficit on Provision of Services	25.0	-	(51.3)	-	-	-	**(26.3)**	-	**(26.3)**	*(2.5)*	***(28.8)***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	58.3	**58.3**	*3.5*	***61.8***
Total Comprehensive Income and Expenditure	**25.0**	**-**	**(51.3)**	**-**	**-**	**-**	**(26.3)**	**58.3**	**32.0**	***1.0***	***33.0***
Adjustments between Accounting Basis & Funding Basis under Regulations	(25.3)	-	46.1	(0.6)	(0.5)	1.0	**20.7**	(20.7)	**-**	-	***-***
Net (Increase)/Decrease before Transfers & Other Movements	**(0.3)**	**-**	**(5.2)**	**(0.6)**	**(0.5)**	**1.0**	**(5.6)**	**37.6**	**32.0**	***1.0***	***33.0***
Transfers to/from other Reserves	0.3	(0.1)	(0.2)	-	-	-	**-**	-	**-**	-	***-***
(Increase)/Decrease for the Year	**(0.0)**	**(0.1)**	**(5.4)**	**(0.6)**	**(0.5)**	**1.0**	**(5.6)**	**37.6**	**32.0**	***1.0***	***33.0***
Balance Carried Forward	**(39.5)**	**(63.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**	**(475.6)**	**(632.8)**	***12.6***	***(620.2)***

Movement in Reserves Statement – 2010/2011

	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	Total Usable Reserves £M	Unusable Reserves £M	TOTAL (Council) £M	*Reserves of Subsidiary £M*	*TOTAL (Group) £M*
Balance Brought Forward	**(31.9)**	**(50.2)**	**(3.5)**	**-**	**(0.6)**	**(14.0)**	**(100.2)**	**(825.0)**	**(925.2)**	***24.1***	***(901.1)***
Surplus or Deficit on Provision of Services	(96.9)	-	408.0	-	-	-	**311.1**	-	**311.1**	*(6.6)*	***304.5***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	(50.7)	**(50.7)**	*(5.9)*	***(56.6)***
Total Comprehensive Income and Expenditure	**(96.9)**	**-**	**408.0**	**-**	**-**	**-**	**311.1**	**(50.7)**	**260.4**	***(12.5)***	***247.9***
Adjustments between Accounting Basis & Funding Basis under Regulations	76.0	0.2	(409.8)	(4.6)	(1.2)	(23.1)	**(362.5)**	362.5	**-**	-	**-**
Net Increase/Decrease before Transfers & Other Movements	**(20.9)**	**0.2**	**(1.8)**	**(4.6)**	**(1.2)**	**(23.1)**	**(51.4)**	**311.8**	**260.4**	***(12.5)***	***247.9***
Transfers to/from other Reserves	13.3	(13.5)	0.2	-	-	-	**-**	-	**-**	-	**-**
(Increase)/Decrease for the Year	**(7.6)**	**(13.3)**	**(1.6)**	**(4.6)**	**(1.2)**	**(23.1)**	**(51.4)**	**311.8**	**260.4**	***(12.5)***	***247.9***
Balance Carried Forward	**(39.5)**	**(63.5)**	**(5.1)**	**(4.6)**	**(1.8)**	**(37.1)**	**(151.6)**	**(513.2)**	**(664.8)**	***11.6***	***(653.2)***

Cash Flow Statement

2010/2011 Council £M	2010/2011 *Group £M*		2011/2012 Council £M	2011/2012 *Group £M*
311.2	*304.5*	Net (surplus) or deficit on the provision of services	(26.3)	*(28.8)*
(418.4)	*(413.3)*	Adjust for non-cash movements	(136.4)	*(138.8)*
44.3	*44.3*	Adjust for items that are investing and financing activities	6.0	*6.0*
(62.9)	***(64.5)***	**Net cash flows from operating activities**	**(156.7)**	***(161.6)***
		Comprising:		
28.5	*28.5*	Interest paid	29.0	*29.0*
(0.7)	*(0.7)*	Interest received	(0.6)	*(0.6)*
-	-	Dividends received	(0.6)	*(0.6)*
(90.7)	*(92.3)*	Other operating activities	(184.5)	(189.4)
(62.9)	***(64.5)***	**Net cash flows from operating activities**	**(156.7)**	***(161.6)***
		Investing activities		
132.7	*132.7*	Purchase of property, plant and equipment, investment property and intangible assets	124.0	*124.0*
22.5	*22.5*	Purchase of short-term and long-term investments	627.0	*627.0*
32.7	*32.7*	Other payments for investing activities	0.4	*0.4*
(4.0)	*(4.0)*	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(6.0)	*(6.0)*
(85.5)	*(85.5)*	Other receipts from investing activities	(642.3)	*(642.3)*
98.4	***98.4***	**Net cash flows from total investing activities**	**103.1**	***103.1***

Cash Flow Statement (continued)

2010/2011 Council £M	*Group £M*		2011/2012 Council £M	*Group £M*
		Financing activities		
(60.0)	*(60.0)*	Cash receipts of short- and long-term borrowing	(1.6)	*(1.6)*
1.3	*1.3*	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.2	*1.2*
26.5	*26.5*	Repayments of short-and long-term borrowing	53.3	*53.3*
(1.1)	*(1.1)*	Other payments for financing activities	-	-
(33.3)	***(33.3)***	**Net cash flows from total financing activities**	**52.9**	***52.9***
2.2	***0.6***	**Net (increase) or decrease in cash and cash equivalents**	**(0.7)**	***(5.6)***
		Cash and cash equivalents at the start of the year:		
0.2	*0.2*	- Cash held by the council	0.2	*0.2*
3.9	*8.9*	- Bank current accounts	1.7	*8.3*
4.1	***9.1***		**1.9**	***8.5***
		Cash and cash equivalents at the end of the year:		
0.2	*0.2*	- Cash held by the council	0.2	*0.2*
1.7	*8.3*	- Bank current accounts	2.4	*13.9*
1.9	***8.5***		**2.6**	***14.1***

6. THE FINANCIAL STATEMENTS

Note 1 – Financial Performance for 2011/2012

The purpose of this note is to show how the council's financial performance for 2011/2012 was reported to its management (senior officers and councillors).

General Fund

The following table compares the council's General Fund outturn for 2011/2012 to its budget. It splits the figures by directorate, which is the format used for internal reporting to management. The bottom line of this table is the surplus or deficit calculated in line with the legal requirements. As the table shows, the council's net General Fund expenditure for the year was balanced: as a result there were no additions to the General Fund Balance, which continues to stand at £39.540M.

	Budget 2011/2012	Outturn 2011/2012	Variation Over/(Under)	
	£M	£M	£M	%
Community	145.433	144.290	(1.143)	-0.79%
Delivery	39.635	36.373	(3.262)	-8.23%
Education and Enterprise	50.840	76.907	26.067	51.27%
Office of the Chief Executive	2.314	2.399	0.085	3.67%
Corporate Budgets	6.126	(15.621)	(21.747)	-355.00%
Net Budget Requirement	**244.348**	**244.348**	**-**	**-**
Formula Grant	(145.030)	(145.030)	-	-
Council Tax	(93.518)	(93.518)	-	-
Collection Fund Surplus	(0.890)	(0.890)	-	-
Use of Reserves	(4.910)	(4.910)	-	-
Total Resources	**(244.348)**	**(244.348)**	**-**	**-**
Net (Surplus)/Deficit	**-**	**-**	**-**	**-**

Housing Revenue Account

A surplus of £5.396M was generated on the Housing Revenue Account (HRA) during the year, increasing the HRA balance to £10.453M. The following table shows the outturn position on the HRA during the year, as reported to the council's Cabinet. The table excludes any transactions which are required by the Code but are not a charge or credit to the HRA under law.

	Approved Budget £M	2011/2012 Outturn £M	Variation £M
Income			
Gross Rents - Dwellings	(78.506)	(78.933)	(0.427)
Gross Rents - Non Dwellings	(1.511)	(1.502)	0.009
Charges to Tenants for Services and Facilities	(4.578)	(4.589)	(0.011)
Total Income	**(84.595)**	**(85.024)**	**(0.429)**
Expenditure			
Repairs and Maintenance	26.455	25.256	(1.199)
Supervision and Management	19.110	18.215	(0.895)
Rents, Rates and Taxes	0.232	0.211	(0.021)
Negative HRA Subsidy Payable	2.283	6.990	4.707
Increase in Provision for Bad Debts	0.676	0.750	0.074
Depreciation of Fixed Assets	15.035	15.035	-
Total Expenditure	**63.791**	**66.457**	**2.666**
Net Cost of HRA Services	**(20.804)**	**(18.567)**	**2.237**
Interest Payable	19.436	13.051	(6.385)
Interest and Investment Income	(0.028)	(0.036)	(0.008)
Adjustment for Premiums & Discounts	-	(0.025)	(0.025)

	Approved Budget £M	2011/2012 Outturn £M	Variation £M
Provision for Redemption of Debt	0.440	0.181	(0.259)
(Surplus) / Deficit for the Year	**(0.956)**	**(5.396)**	**(4.440)**

Capital Programme

The following tables show capital expenditure for the year, and how that expenditure was financed. As with the General Fund revenue account, this is presented according to the breakdown used internally by councillors and senior managers when making decisions about capital budgets.

Expenditure	Approved Budget £M	Outturn £M	Variation Over/(Under) £M
Housing Services			
Housing Revenue Account	43.839	41.132	(2.707)
Private Sector Housing (General Fund)	3.236	2.596	(0.640)
	47.075	**43.728**	**(3.347)**
General Fund (Non-Housing)			
Delivery	5.519	15.155	9.636
Community	16.962	15.023	(1.939)
Education and Enterprise	110.896	85.689	(25.207)
Assistant Chief Executive	0.019	0.005	(0.014)
	133.396	**115.872**	**(17.524)**
Total Expenditure	**180.471**	**159.600**	**(20.871)**

Financing	Approved Funding £M	Outturn Funding £M	Variation Over/(Under) £M
External Funding			
Supported Borrowing	23.143	23.143	-
Grants & Contributions	104.586	84.234	(20.352)
	127.729	**107.377**	**(20.352)**
	70.78%	67.28%	
Council Funding			
Capital Receipts	4.427	3.392	(1.035)
Prudential Borrowing	30.993	33.903	2.910
Reserves	0.128	-	(0.128)
Major Repairs Reserve	17.020	14.412	(2.608)
Revenue Contributions	0.174	0.516	0.342
	52.742	**52.223**	**(0.519)**
	29.22%	32.72%	
Total Financing	**180.471**	**159.600**	**(20.871)**

Reserves

The table below analyses the council's usable reserves, in the format reported to the Cabinet.

	Balance at 31 March 2011 £M	Net Movement 2011/2012 £M	Balance at 31 March 2012 £M
Earmarked Reserves			
Community	4.411	(0.577)	3.834
Education and Enterprise (Non-Schools)	8.891	1.216	10.107
Office of the Chief Executive and Delivery	4.986	0.332	5.318
Corporate	29.913	(6.779)	23.134
Total Earmarked Reserves	**48.201**	**(5.808)**	**42.393**
Other Reserves			
Schools' Balances	15.821	5.388	21.209
General Fund Balance	39.540	-	39.540
Housing Revenue Account Balance	5.056	5.396	10.452
Total Usable Revenue Reserves	**108.618**	**4.976**	**113.594**

Note 2 – Income and Expenditure

2A – Trading Operations

2010/2011		Operation	2011/2012	
(Turnover) £M	(Surplus)/ Deficit £M		(Turnover) £M	(Surplus)/ Deficit £M
(2.3)	-	Markets	(2.2)	(0.2)
(3.7)	(0.4)	Cleaning of Buildings	(3.9)	(0.5)
(3.5)	(0.2)	Ground Maintenance	(3.3)	(0.2)
(2.9)	(0.1)	Street Cleaning	(3.0)	0.1
(6.8)	(0.9)	Schools and Welfare Catering	(7.9)	(1.3)
(7.5)	(1.3)	Other Catering	(0.3)	-
(0.9)	0.3	Transport Services	(7.0)	(0.7)
(0.3)	-	Former DSO Depots	(0.9)	0.2
(27.9)	**(2.6)**	**Total**	**(28.5)**	**(2.6)**

2B – Pooled Budgets

The council takes part in a number of pooled budget schemes with Wolverhampton Primary Care Trust (PCT). The table below provides a summary of these schemes, with the administering body's name in brackets.

2010/2011 Council Contribution £M	2010/2011 PCT Contribution £M	2010/2011 Total Expenditure £M	Scheme	2011/2012 Council Contribution £M	2011/2012 PCT Contribution £M	2011/2012 Total Expenditure £M
1.6	1.1	2.7	Child Placements with External Agencies (Council) - An integrated service to provide placements for children with social care, education and health needs	1.8	1.2	3.0
0.4	0.8	1.2	Intermediate Care Services (PCT) - Provides an integrated service with a focus on independence and effective rehabilitation	0.4	0.8	1.2
13.7	10.2	23.9	Learning Disability Services (Council) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	16.5	0.8	17.3
1.5	0.4	1.9	Independent Living Service (Council) - Provides equipment and adaptations for Wolverhampton residents	1.6	0.5	2.1
5.2	15.1	20.3	Mental Health Service (Council and PCT) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	4.4	16.3	20.7

2C – Councillors' Allowances

The council paid £1.0M in councillors' allowances during 2011/2012 (2010/2011: £1.0M).

2D – Senior Officers' Remuneration

2011/2012							
Name / Post	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsi-bilities (1) £	TOTAL £
Senior employees with a salary of £0.150M or more							
Mr Simon Warren, Chief Executive	138,432	-	1,989	-	28,681	17,166	**186,268**
Mr Tom Rennie, Strategic Director, Delivery (Note 2)	218,218	-	11,838	-	-	-	**230,056**
Mr Charles Green, Strategic Director, Education and Enterprise (Note 2)	161,730	-	9,222	-	-	-	**170,952**
Senior employees with a salary of less than £0.150M							
Assistant Chief Executive	87,425	-	963	-	15,911	-	**104,299**
Assistant Director, Corporate Services (Section 151 Officer) (Note 3)	87,425	-	963	-	19,853	21,657	**129,898**
Assistant Director, Governance	83,150	-	963	-	16,647	8,315	**109,075**
Strategic Director, Communities	132,501	-	1,989	-	24,477	-	**158,967**
Director of Customer and Shared Services	-	-	-	18,995	-	-	**18,995**
Director of Pensions (Note 4)	113,817	-	1,989	-	25,220	22,763	**163,789**
Director of Pensions (Note 4)	10,000	-	166	-	1,850	-	**12,016**
Director of Regeneration and Enterprise	-	-	-	22,814	-	-	**22,814**
TOTAL	**1,032,698**	**-**	**30,082**	**41,809**	**132,639**	**69,901**	**1,307,129**

Name / Post	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsi-bilities (1) £	TOTAL £
			2010/2011				
Senior employees with a salary of £0.150M or more							
Mr Simon Warren, Chief Executive	134,755	-	1,989	-	27,161	16,710	**180,615**
Senior employees with a salary of less than £0.150M							
Director: Children & Young People	111,439	-	1,823	94,469	18,790	-	**226,521**
Director: Regeneration & Environment	77,047	-	1,989	101,843	20,498	-	**201,377**
Director: Pensions	113,817	-	1,989	-	24,527	22,763	**163,096**
Director: Customer & Shared Services	96,055	-	-	42,839	20,146	-	**159,040**
Director: Adults & Community	113,817	-	1,989	-	20,498	-	**136,304**
Chief Legal Officer	89,077	-	963	-	16,050	8,244	**114,334**
Chief Financial Officer	86,712	-	1,053	-	16,115	4,336	**108,216**
Assistant Chief Executive	86,712	-	963	-	15,348	-	**103,023**
TOTAL	**909,432**	**-**	**12,759**	**239,151**	**179,132**	**52,052**	**1,392,526**

Note 1: These costs are funded by West Midlands Pension Fund and not by the council.

Note 2: The posts of Strategic Director, Delivery and Strategic Director, Education and Enterprise were held on an interim basis throughout the year.

Note 3: The Assistant Director, Corporate Services (Section 151 Officer) received back pay for pension responsibilities relating to prior years during 2011/2012.

Note 4: The post of Director of Pensions has been held by two individuals during the year.

The following table shows the number of employees whose remuneration for the year (excluding employers' pension contributions) exceeded £50,000, in bands of £5,000.

2010/2011						Band	2011/2012					
Number of Employees			Left During the Year				Number of Employees			Left During the Year		
Schools	Pension Fund	Other	Schools	Pension Fund	Other		Schools	Pension Fund	Other	Schools	Pension Fund	Other
-	-	1	-	-	1	£155-£160,000	-	-	-	-	-	-
-	-	-	-	-	-	£150-£155,000	-	-	-	-	-	-
-	-	1	-	-	1	£145-£150,000	-	-	-	-	-	-
-	-	-	-	-	-	£140-£145,000	-	-	-	-	-	-
-	-	-	-	-	-	£135-£140,000	-	-	-	-	-	-
1	-	-	-	-	-	£130-£135,000	-	-	-	-	-	-
-	-	1	-	-	1	£125-£130,000	-	-	-	-	-	-
-	-	1	-	-	1	£120-£125,000	-	-	-	-	-	-
-	-	2	-	-	2	£115-£120,000	-	-	-	-	-	-
-	-	-	-	-	-	£110-£115,000	1	-	-	-	-	-
1	-	1	-	-	1	£105-£110,000	-	-	-	-	-	-
-	-	-	-	-	-	£100-£105,000	-	-	-	-	-	-
1	-	-	-	-	-	£95-£100,000	1	-	-	-	-	-
3	-	-	2	-	-	£90-£95,000	2	-	-	-	-	-
2	1	-	-	-	-	£85-£90,000	5	1	-	-	-	-
2	-	7	-	-	-	£80-£85,000	2	-	9	-	-	-
9	-	4	-	-	3	£75-£80,000	7	-	2	-	-	1
9	-	8	-	-	2	£70-£75,000	9	-	10	-	-	7
16	-	6	-	-	1	£65-£70,000	12	-	6	-	-	3
30	-	15	2	-	2	£60-£65,000	34	-	6	1	-	2
53	2	21	1	-	2	£55-£60,000	50	3	26	3	-	5
54	3	60	3	-	1	£50-£55,000	55	3	43	3	-	4
181	**6**	**128**	**8**	**-**	**18**	**Total**	**178**	**7**	**102**	**7**	**-**	**22**

2E – Exit Packages

The following table provides information about exit packages payable by the council during the year.

2010/2011						Value of Individual Package	2011/2012					
Compulsory		Voluntary		Total			Compulsory		Voluntary		Total	
No.	£M	No.	£M	No.	£M		No.	£M	No.	£M	No.	£M
-	-	-	-	**-**	**-**	£150,000 to £200,000	-	-	-	-	-	-
1	0.1	2	0.2	**3**	**0.3**	£100,000 to £150,000	-	-	1	0.1	1	0.1
2	0.1	2	0.2	**4**	**0.3**	£80,000 to £100,000	2	-	1	0.1	3	0.1
1	0.1	5	0.4	**6**	**0.5**	£60,000 to £80,000	-	-	5	0.3	5	0.3
3	0.1	10	0.4	**13**	**0.5**	£40,000 to £60,000	2	0.1	9	0.4	11	0.5
14	0.3	32	0.9	**46**	**1.2**	£20,000 to £40,000	10	0.2	24	0.7	34	0.9
86	0.5	117	1.2	**203**	**1.7**	Less than £20,000	64	0.2	112	1.0	176	1.2
107	**1.2**	**168**	**3.3**	**275**	**4.5**	**Total**	**78**	**0.5**	**152**	**2.6**	**230**	**3.1**

2F – Amounts Payable to the Auditor

The table below shows amounts payable to the council's external auditors (PricewaterhouseCoopers/the Audit Commission) during the year.

2010/2011 £M		2011/2012 £M
	Audit Commission – statutory inspections:	
0.003	- Audit inspection fee	-
(0.036)	- Rebates for arrangements relating to the abolition of the Audit Commission (*)	(0.033)
(0.033)	**Sub Total Audit Commission**	**(0.033)**
	PricewaterhouseCoopers LLP	
0.465	- External audit (council)	0.419
0.062	- External audit (West Midlands Pension Fund)	0.062
0.110	- Certification of grant claims and returns	0.100
0.151	- Additional work (**)	0.427
0.788	**Sub Total PricewaterhouseCoopers LLP**	**1.008**
0.755	**TOTAL**	**0.975**

* The rebates of £0.036M in 2010/2011 and £0.033M in 2011/2012 were intended to smooth any financial impact of the abolition of the Audit Commission on Local Authorities.

** The fees to PricewaterhouseCoopers LLP in 2010/2011 for additional work relate to the following: £0.059M prior year overruns, £0.015M job evaluation exercise review, £0.031M internal audit effectiveness review, and £0.046M estates review. In 2011/2012, the additional work related to £0.176M risk based work, £0.224M estates review and £0.027M VAT claims support.

2G – 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). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a restricted range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and under-spends on the two elements are required to be accounted for separately. The table below shows how the council applied its DSG.

2010/2011 Central Expenditure £M	2010/2011 Individual Schools Budget £M	2010/2011 Total £M		2011/2012 Central Expenditure £M	2011/2012 Individual Schools Budget £M	2011/2012 Total £M
(11.1)	(139.7)	(150.8)	Dedicated Schools Grant	(15.1)	(160.0)	(175.1)
-	-	-	(Over)/Under Spend from Prior Year	-	-	-
(11.1)	**(139.7)**	**(150.8)**	**Agreed Budget Distribution for the Year**	**(15.1)**	**(160.0)**	**(175.1)**
11.9	-	11.9	Actual Central Expenditure for the Year	16.2	-	16.2
-	139.7	139.7	Actual ISB Deployed to Schools	-	160.0	160.0
(0.8)	-	(0.8)	Local Authority Contribution for the Year	(1.1)	-	(1.1)
-	**-**	**-**	**(Over)/Under Spend Carried Forward**	**-**	**-**	**-**

Note 2H – Exceptional Items

In 2011/2012 there were two exceptional items of expense, and one of income. Two of these arose from the same source, which was the HRA self-financing settlement carried out by the Government on 28 March 2012. Under the settlement, the council had £47.7M of borrowing paid off, along with £12.1M of associated premiums for early redemption. The council has accounted for the £12.1M premiums as an exceptional item of expense, and for the Government funding, totalling £59.8M, as an exceptional item of income.

The other exceptional item of expense relates to the Equal Pay Act 1970, as amended by the Equal Pay Act (Amendments) Regulations 2003, under which 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. At 1 April 2011, the council held £20.9M (1 April 2010: £14.9M) in a provision for any such costs. Based on updated forecasts, the provision has been increased by £10.1M in 2011/2012 (2010/2011: £6.0M). In order to ensure that in future, employees whose work is of equal value will receive equal pay, the Council is nearing the completion of an extensive job evaluation exercise, in line with the 1997 Single Status agreement between the National Joint Council and trade unions.

There were two other exceptional items of expense in 2010/2011, as described in the following paragraphs.

During 2010/11 the council's housing stock was re-valued downwards by a net £404.4M. This was due to a fall in the Existing Use Value (Social Housing) adjustment factor. This factor reflects the economic cost to government of providing housing at less than open market rents. For the West Midlands Area the factor fell from 49% in 2009/2010 to 34% in 2010/2011.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the council's liabilities in the West Midlands Pension Fund and the Teachers Discretionary Pension Fund by £63.8M, which has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There was no impact on the General Fund or Housing Revenue Account.

Note 3 – Current Debtors and Creditors

The tables below show amounts owed to the council (debtors), and amounts owed by the council (creditors) at the end of the year, split by type of organisation.

3A – Current Debtors

31 March 2011			31 March 2012	
Council £M	*Group £M*	Type of organisation	Council £M	*Group £M*
15.6	*15.6*	Central government bodies	12.5	*12.5*
0.6	*0.8*	Other local authorities	-	-
0.7	-	Public corporations and trading funds	-	-
47.7	*47.6*	Bodies external to general government	39.9	*38.2*
64.6	***64.0***	**Total**	**52.4**	***50.7***

3B – Current Creditors

31 March 2011			31 March 2012	
Council £M	*Group £M*	Type of organisation	Council £M	*Group £M*
(4.2)	*(4.2)*	Central government bodies	(54.3)	*(56.0)*
-	-	Other local authorities	(0.1)	*(0.1)*
(3.3)	*(3.3)*	NHS bodies	-	-
(2.0)	-	Public corporations and trading funds	-	-
(65.6)	*(70.9)*	Bodies external to general government	(32.7)	*(34.9)*
(75.1)	***(78.4)***	**Total**	**(87.1)**	***(91.0)***

Note 4 – Provisions and Contingent Liabilities

4A – Provisions

Balance at 31 March 2011 £M	Provision Name	Provision Details	Amounts Used in 2011/2012 £M	Provisions Made in 2011/2012 £M	Balance at 31 March 2012 £M
(20.9)	Capitalisation Risks	This provision is in respect of potential claims under equal pay legislation. The council has had approval from the Government to capitalise payments it may need to make in respect of Equal Pay Back Pay claims.	1.0	(10.1)	(30.0)
(2.3)	Insurance	The council self-insures risks to property and assets up to a total aggregate limit of £1M and its liability exposures up to a limit of £0.25M on any one occurrence above which limits the external insurance cover operates. The insurance provision of £2.3M is in respect of the outstanding claims under the self-insurance programme covering the current and past years.	-	-	(2.3)
(2.3)	Termination Benefits	During 2010/2011 and 2011/2012, the council undertook a senior management restructure, and a voluntary redundancy exercise. As a result of these two initiatives, there were a number of employees and former employees to whom termination benefits were due, but had not yet been made, at the end of the year.	2.3	(1.0)	(1.0)
(0.3)	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.	-	-	(0.3)
(0.3)	Aborted Project Costs (LIFT)	Due to a LIFT project to which the council was party being aborted, the council may incur costs relating to this. These have been estimated at £0.250M.	0.3	-	-
-	Carbon Reduction Commitment	This provision is in respect of the council's liability under the national, compulsory Carbon Reduction Commitment scheme. It represents the council's estimate of the amount it will have to pay to purchase allowances for its use of carbon in 2011/2012.	-	(0.4)	(0.4)

Balance at 31 March 2011 £M	Provision Name	Provision Details	Amounts Used in 2011/2012 £M	Provisions Made in 2011/2012 £M	Balance at 31 March 2012 £M
(0.1)	Housing Revenue Account	There are four separate provisions: for legal disrepair claims, for tenant management organisation expenditure, for a bond from a housing contractor and for rent bonds.	-	-	(0.1)
(0.1)	Other	These are small amounts relating to ex-members of the pension fund.	-	-	(0.1)
(26.3)	**TOTAL**		**3.6**	**(11.5)**	**(34.2)**

4B – Contingent Liabilities

At 31 March 2012, 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 £26.6M 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 £26.6M, 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 2012 is £11.1M (31 March 2011 - £12.1M).

- There is a future payment to be paid under the council's well-being powers, which has arisen as a result of investigations into contamination of the site previously occupied by Courtaulds upon which there now stands a mix of private and social housing. The technical investigations into the land contamination affecting 84 properties are now complete. The council is in the process of assigning liabilities with a view to requiring those responsible to address the contamination. This however is a complex and lengthy legal process with a high likelihood of challenge from any of the parties considered by the council as to be responsible. The ability of the council to progress remediation is directly linked to the legal framework in place.

- A contingent liability exists for the costs of Equal Pay compensation. The council has established a provision for £30.0M (31 March 2011: £21.0M). The potential costs of any further cases not addressed by this provision cannot be reliably quantified at this stage.

- There are a number of 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 2012 is estimated at £0.8M (31 March 2011: £0.8M).

- The council granted planning permission to Victoria Halls Ltd for the development and construction of student halls of residence against the advice of the Health and Safety Executive. This resulted in a legal challenge from the HSE during 2009. This has been concluded for the built elements of the development (Blocks A, B and C) and their planning status is now secure. The council is required to reconsider its original planning decision in respect to the as yet un-built Block D. This will be undertaken following the consideration of an appeal to the Supreme Court by the HSE on a point of planning law the outcome of which may in part impact to some degree on the matters the council should properly consider when reconsidering the original planning decision in respect to Block D . The outcome of reconsidering the Block D decision will determine if the council incurs any liabilities, legal or other costs.

- Under recent guidance issued by Department for Environment Food and Rural Affairs in respect of the Environmental Information Regulations 2004, it has been suggested that local authorities do not have the power to charge fees for ‘personal’ local land register searches, and that they may be liable to repay fees they have received since 2005. For the council, this would equate to £0.2M. If all property search fees are taken into account, the total liability is £1.9M. However, the legal position is currently unclear, meaning that the existence of a liability cannot be confirmed until the relevant legal issues are resolved.

- During 2011/2012, the council undertook a voluntary redundancy exercise. There were a number of applications for voluntary redundancy in progress, but 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 Seven 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 were required to agree to the same indemnity relating to the former Severn Trent land. Under the Joint Venture Agreement relating to i54, Wolverhampton City Council would be required to fund 50% of any liability arising from this indemnity, subject to a cap of £2M.

- 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 Ltd in respect of the design element for earthworks to plots. Under the Joint Venture Agreement relating to i54, Wolverhampton City Council would be required to fund 50% of any liability arising from this warranty, subject to a cap of £2.5M.

Note 5 – Non-Current Assets

The following tables analyse movements in the carrying values of non-current assets during the year.

	Carrying Value at 1 April 2011			2011/2012						Carrying Value at 31 March 2012		
	Gross Value	Accumulated Depreciation/Impairment	Net Value	Additions	Disposals	Revaluations/ Fair Value Gains/(Losses)	Impairments	Depreciation/ Amortisation	Other Changes	Gross Value	Accumulated Depreciation/Impairment	Net Value
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Council Dwellings	1,450.2	(802.0)	**648.2**	41.0	(1.8)	-	(1.4)	(15.1)	1.3	1,224.2	(552.0)	**672.2**
Other Land and Buildings	960.5	(196.6)	**763.9**	68.3	(0.8)	10.2	(29.6)	(25.2)	(10.5)	1,026.8	(250.5)	**776.3**
Vehicles, Plant, Furniture and Equipment	59.5	(37.0)	**22.5**	3.4	-	-	(0.1)	(9.1)	(0.2)	62.6	(46.1)	**16.5**
Infrastructure Assets	240.4	(105.3)	**135.1**	9.8	-	-	-	(9.9)	-	250.2	(115.2)	**135.0**
Community Assets	66.3	(44.9)	**21.4**	0.5	-	-	-	-	0.5	27.3	(4.9)	**22.4**
Surplus Assets	11.5	(10.5)	**1.0**	0.2	-	(0.1)	(3.3)	(0.2)	10.3	13.4	(5.5)	**7.9**
Assets Under Construction	3.9	-	**3.9**	0.8	-	-	-	-	(3.8)	0.9	-	**0.9**
Investment Properties	17.7	-	**17.7**	-	-	0.1	(1.4)	-	1.7	21.0	(2.9)	**18.1**
Intangible Assets	1.1	(0.2)	**0.9**	-	-	-	-	(0.2)	0.7	1.9	(0.5)	**1.4**
Heritage Assets	11.1	-	**11.1**	-	-	-	-	-	-	11.1	-	**11.1**
Total	**2,822.2**	**(1,196.5)**	**1,625.7**	**124.0**	**(2.6)**	**10.2**	**(35.8)**	**(59.7)**	**0.0**	**2,639.4**	**(977.6)**	**1,661.8**

	Carrying Value at 1 April 2010			2010/2011						Carrying Value at 31 March 2011		
	Gross Value £M	Accumulated Depreciation/Impairment £M	Net Value £M	Additions £M	Disposals £M	Revaluations/ Fair Value Gains/(Losses) £M	Impairments £M	Depreciation/ Amortisation £M	Other Changes £M	Gross Value £M	Accumulated Depreciation/Impairment £M	Net Value £M
Council Dwellings	1,177.4	(166.2)	**1,011.2**	57.9	(1.5)	-	(404.5)	(14.8)	-	1,450.2	(802.0)	**648.2**
Other Land and Buildings	902.6	(173.8)	**728.8**	52.6	-	0.5	-	(23.0)	5.0	960.5	(196.6)	**763.9**
Vehicles, Plant, Furniture and Equipment	52.6	(29.1)	**23.5**	6.9	-	-	-	(7.9)	-	59.5	(37.0)	**22.5**
Infrastructure Assets	229.7	(95.7)	**134.0**	10.7	-	-	-	(9.7)	-	240.4	(105.3)	**135.1**
Community Assets	22.7	(0.5)	**22.2**	0.5	-	(0.3)	(0.3)	-	(0.6)	66.3	(44.9)	**21.4**
Surplus Assets	32.1	(12.5)	**19.6**	3.2	-	0.5	(7.8)	(0.2)	(14.1)	11.5	(10.5)	**1.0**
Assets Under Construction	2.6	-	**2.6**	1.0	-	-	-	-	0.3	3.9	-	**3.9**
Investment Properties	7.4	-	**7.4**	-	-	1.0	-	-	9.4	17.7	-	**17.7**
Intangible Assets	1.1	-	**1.1**	-	-	-	-	(0.2)	-	1.1	(0.2)	**0.9**
Heritage Assets	11.1	-	**11.1**	-	-	-	-	-	-	11.1	-	**11.1**
Total	**2,439.3**	**(477.8)**	**1,961.5**	**132.8**	**(1.5)**	**1.7**	**(412.6)**	**(55.8)**	**0.0**	**2,822.2**	**(1,196.5)**	**1,625.7**

Depreciation/Amortisation

Property, Plant and Equipment assets are depreciated on a straight-line basis over the estimated useful economic life of the asset, with the exception of council dwellings, for which Major Repairs Allowance is used as a proxy for depreciation. Intangible assets are amortised on a straight-line basis over the estimated useful economic life of the asset.

Revaluation

During 2011/2012 the council re-valued a number of assets. These valuations were carried out by the council's in-house valuation team 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 Regeneration.

Basis of valuation

In accordance with the CIPFA Code of Practice on Local Authority Accounting 2011/12, infrastructure and assets under construction are valued at depreciated historical cost. All other classes of asset are measured at fair value. Where there is no market based evidence of fair value the council estimates fair value using the depreciated historic cost approach. The fair value of council dwellings is measured using existing use value (social housing). The following table describes the measurement bases used to determine the gross carrying value of each of the council's classes of non-current assets.

Asset Class	Measurement Base
Council Dwellings	Fair value based on existing use value (social housing) (EUV-SH).
Other Land and Buildings	Fair 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	Fair value based on existing use value (EUV) or depreciated replacement cost (DRC) using the "instant build" approach if EUV cannot be determined.
Infrastructure Assets	Depreciated historical cost.
Community Assets	Depreciated historical cost or valuation.
Surplus Assets	Fair value based on existing use value (EUV) applying the same assumptions relating to the level of usage, etc, as those of the most recent revaluation as an operational asset.
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).
Intangible Assets	Initially measured at cost.
Heritage Assets	Where the council has information on the cost or value of the asset, the asset is recognised at this amount.

Inspection

The method of inspection varies according to the nature of the property to be valued and ranges from visual external inspection to internal inspections when considered appropriate. 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.
- Title - any reference to title is made from Commercial Development file references only if further investigation is not deemed to be required due to lack of clear evidence upon reference to file/site inspection.

Capital Commitments
At 31 March 2012, the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/2013 and future years with an estimated total value of £59.4M (31 March 2011: £91.4M). The major commitments are: Building Schools for the Future (£48.2M) and Decent Homes (£5.9M).

Investment Properties
During the year the council had £1.6M of income receivable from investment properties (2010/2011: £1.7M) and spent £2.0M on managing and maintaining those properties (2010/2011: £0.9M). 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 repairs, maintenance or enhancements.

Impairment
During 2010/2011, the council impaired its HRA dwelling stock by £404.4M, entirely due to a change in the factor used to calculate the Existing Use Value (Social Housing). This factor, which represents the economic cost to government of providing housing at less than market rates, reduced from 49% to 34%.

Capital Financing Requirement
The council's capital financing requirement, which represents the underlying need to borrow to pay for past capital expenditure, was £768.3M at 31 March 2012 (31 March 2011: £722.9M).

Note 6 – 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 two post-employment schemes and provides a further local discretionary scheme:

- The Local Government Pension Scheme, administered locally by The West Midlands Pension Fund. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions 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.

- 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.

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:

2010/2011 LGPS £M	2010/2011 Teachers £M		2011/2012 LGPS £M	2011/2012 Teachers £M
		COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		
		Cost of Services:		
(25.1)	-	- Current service cost	(20.4)	-
60.7	3.0	- Past service costs	(0.1)	-
(0.4)	(2.5)	- Settlements and curtailments	(1.2)	(0.2)
		Financing and Investment Income and Expenditure:		
(57.5)	(2.8)	- Interest cost	(53.7)	(2.8)
42.0	-	- Expected return on scheme assets	44.7	-
19.7	**(2.3)**	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**(30.7)**	**(3.0)**
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
51.0	(1.0)	- Actuarial gains and losses	(66.7)	(1.8)
70.7	**(3.3)**	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(97.4)**	**(4.8)**
		MOVEMENT IN RESERVES STATEMENT		
45.6	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	(7.7)	0.7
		Actual amount charged against the General Fund Balance for pensions in the year:		
25.9	-	- Employer's contributions payable to scheme	23.0	-
-	3.8	- Retirement benefits payable to pensioners	-	
71.5	**5.4**	**Total Movement in Reserves**	**15.3**	**0.7**

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:

2010/2011 LGPS £M	Assets	2011/2012 LGPS £M
615.2	**Opening balance at 1 April**	**667.0**
42.0	Expected rate of return	44.7
8.0	Actuarial gains and losses	(29.9)
26.0	Employer contributions	23.0
8.6	Contributions by scheme participants	7.5
(32.8)	Benefits paid	(36.8)
-	Entity combinations	-
-	Settlements	(0.5)
667.0	**Closing balance at 31 March**	**675.0**

2010/2011 Funded: LGPS £M	2010/2011 Unfunded: LGPS £M	2010/2011 Unfunded: Teachers £M	Liabilities	2011/2012 Funded: LGPS £M	2011/2012 Unfunded: LGPS £M	2011/2012 Unfunded: Teachers £M
(991.6)	**(35.2)**	**(53.5)**	**Opening balance at 1 April**	**(951.0)**	**(31.0)**	**(52.9)**
(25.1)	-	(2.9)	Current service cost	(20.4)	-	(2.8)
(55.6)	(1.9)	-	Interest cost	(52.1)	(1.6)	-
(8.6)	-	-	Contributions - participants	(7.5)	-	-
40.8	2.1	(1.0)	Actuarial gains and losses	(36.1)	(0.7)	(1.8)
30.6	2.3	3.8	Benefits paid	35.2	1.6	3.7
59.0	1.7	3.1	Past service costs	(0.1)	-	-
-	-	-	Entity combinations	-	-	-
(0.4)	-	(2.5)	Curtailments	(1.9)	-	(0.2)
-	-	-	Settlements	(9.1)	10.3	-
(950.9)	**(31.0)**	**(53.0)**	**Closing balance at 31 March**	**(1,043.0)**	**(21.4)**	**(54.0)**

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 £14.8M (2010/2011: (£39.6M)).

Scheme History

2007/2008 £M	2008/2009 £M	2009/2010 £M	2010/2011 £M		2011/2012 £M
				Present value of liabilities	
(879.1)	(743.7)	(1,026.8)	(981.9)	Local Government Pension Scheme	(1,064.3)
(51.8)	(44.8)	(53.5)	(53.0)	Discretionary Benefits	(54.0)
(930.8)	**(788.6)**	**(1,080.2)**	**(1,034.9)**	**Sub Total**	**(1,118.3)**
589.3	**474.6**	**615.2**	**667.0**	**Fair Value of Assets in the Local Government Pension Scheme**	**674.9**
				Surplus/(deficit) in the scheme	
(289.8)	(269.2)	(411.5)	(315.0)	Local Government Pension Scheme	(389.4)
(51.8)	(44.8)	(53.5)	(53.0)	Discretionary Benefits	(54.0)
(341.6)	**(314.0)**	**(465.0)**	**(368.0)**	**Total**	**(443.4)**

The liabilities show the underlying commitments that the council has in the long run to pay post-employment (retirement) benefits. The total liability of £443.4M has a substantial impact on the net worth of the council as recorded in the Balance Sheet, reducing it from £1,076.2M to £632.8M. 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 actuary;
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £23.4M. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £3.6M.

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 things such as mortality rates and salary levels. Both the Teachers' Discretionary Pension Scheme and the West Midlands Pension Fund liabilities have been assessed by Mercer Limited, 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 2010. The principal assumptions used by the actuary are set out in the following table.

2010/2011 LGPS	Teachers		2011/2012 LGPS	Teachers
		Long-term expected rate of return on assets in the scheme:		
7.50%	n/a	Equity investments	7.00%	n/a
4.40%	n/a	Government Bonds	3.10%	n/a
5.10%	n/a	Other Bonds	4.10%	n/a
6.50%	n/a	Property	6.00%	n/a
0.50%	n/a	Cash/current assets	50.00%	n/a
7.50%	n/a	Other	7.00%	n/a
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
21.60	21.60	- Men	21.70	21.70
24.20	24.20	- Women	24.30	24.30
		Longevity at 65 for future pensioners:		
23.00	n/a	- Men	23.10	n/a
25.80	n/a	- Women	25.90	n/a
3.40%	2.80%	Rate of inflation	2.50%	2.30%
4.65%	-	Rate of increase in salaries	4.25%	-
2.90%	2.80%	Rate of increase in pensions	2.50%	2.30%
5.50%	5.40%	Rate for discounting scheme liabilities	4.90%	4.60%
50.00%	n/a	Take-up of option to convert annual pension into retirement lump sum	50.00%	n/a

The Discretionary Benefits arrangements have no assets to cover their liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2011 %		31 March 2012 %
59	Equity Investments	55
8	Government Bonds	11
6	Other Bonds	8
9	Property	10
2	Cash/Current Assets	1
16	Other	15
100	**TOTAL**	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

2007/2008 %	2008/2009 %	2009/2010 %	2010/2011 %		2011/2012 %
				Local Government Pension Scheme (including Discretionary):	
(8.10)	(33.50)	(18.70)	(1.20)	- Differences between the expected and actual return on assets	(4.40)
0.30	-	-	(2.90)	- Experience gains and losses on liabilities	-
				Teachers Discretionary Pension Scheme:	
4.2	-	-	(2.40)	- Experience gains and losses on liabilities	-

The council is the administering authority for the West Midlands and Integrated Transport Authority Pension Funds and charged £17.7M in 2011/2012 in administration and investment expenses (2010/2011: £13.4M). The transactions relating to those expenses and the recharge to the Pension Fund are included within the totals for Non-Distributed Costs.

Analysis of Group Net Pension Liability

The following table analyses the net liability for the group.

31 March 2011 Local Government Pension Scheme £M	31 March 2011 Discretionary Pension Scheme £M		31 March 2012 Local Government Pension Scheme £M	31 March 2012 Discretionary Pension Scheme £M
		Estimated Liabilities in Scheme		
(981.9)	(52.9)	Wolverhampton City Council	(1,064.4)	(53.9)
(92.4)	-	Wolverhampton Homes	(100.6)	-
(1,074.3)	**(52.9)**	**Total Liabilities**	**(1,165.0)**	**(53.9)**
		Estimated Assets in Scheme		
667.0	-	Wolverhampton City Council	674.9	-
78.0	-	Wolverhampton Homes	82.1	-
745.0	**-**	**Total Assets**	**757.0**	**-**
(329.3)	**(52.9)**	**Net Liabilities**	**(408.0)**	**(53.9)**

Note 7 – Financial Instruments

Note 7A – Leases and Lease-Type Arrangements

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.

2010/2011					2011/2012			
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	0.5	-	2.2	Payable/receivable in the year	0.4	0.6	-	2.6
0.4	0.5	-	2.2	Due within one year	0.4	0.6	-	2.2
0.5	2.3	-	4.0	Due in one to five years	0.2	1.6	-	6.6
-	1.0	1.9	30.9	Due after five years	-	0.7	1.9	44.1
0.9	**3.8**	**1.9**	**37.1**	**Total due in future years**	**0.6**	**2.9**	**1.9**	**52.9**

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

31 March 2011 £M		31 March 2012 £M
1.2	Vehicles, Plant, Furniture and Equipment	0.7
1.2	**Total**	**0.7**

Note 7B – Private Finance Initiative and Similar Contracts

The council has two contracts which are PFIs or similar in nature and which are accounted for as ‘on balance sheet’: the Bentley Bridge leisure centre, and the waste disposal facility.

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 25m 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 £13.3M and opened on 12 December 2006. The facility is operated by DC Leisure Management 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 £52.5M. Over the remaining life of the project the commitments are:

	Payment for Services £M	Interest £M	Capital Expenditure /Principal Redemption £M	Total £M
Payable in 2012/2013	0.3	0.9	0.2	1.4
Payable within two to five years	1.3	3.5	1.0	5.8
Payable within six to ten years	1.9	4.0	1.3	7.2
Payable within eleven to fifteen years	2.4	3.4	1.4	7.2
Payable within sixteen to twenty years	2.1	2.7	2.4	7.2
Payable within twenty-one to twenty-five years	1.7	1.1	4.0	6.8
Total	**9.7**	**15.6**	**10.3**	**35.6**

The table below shows the balances that existed in respect of the contract at the end of the year, and how they have changed over the course of the year.

	Balance at 31 March 2011 £M	Depreciation £M	Capital Expenditure /Principal Redemption £M	Balance at 31 March 2012 £M
Property, Plant and Equipment	11.7	(0.4)	-	11.3
Long-term Liability	(9.3)	-	0.1	(9.2)
Total	**2.4**	**(0.4)**	**0.1**	**2.1**

Waste Disposal Facility: In 1996 the council signed a contract for the construction and maintenance of a waste disposal facility. The facility cost £26.6M. 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 retender, operate or operate with additional capital 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 (WWS) Ltd. 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 £155.6M. 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 in 2012/2013	5.8	0.8	0.9	7.5
Payable within two to five years	25.7	2.6	4.2	32.5
Payable within six to ten years	30.6	1.1	5.7	37.4
Total	**62.1**	**4.5**	**10.8**	**77.4**

The table below shows the balances that existed in respect of the contract at the end of the year, and how they have changed over the course of the year.

	Balance at 31 March 2011 £M	Depreciation/ Amortisation £M	Capital Expenditure /Principal Redemption £M	Balance at 31 March 2012 £M
Property, Plant and Equipment	11.6	(1.2)	-	10.4
Deferred Income	(3.5)	0.4	-	(3.1)
Long-term Liability	(11.6)	-	0.8	(10.8)
Total	**(3.5)**	**(0.8)**	**0.8**	**(3.5)**

Note 7C – Financial Instruments

The table below shows the carrying values and fair values of financial instruments held by the council at the year end.

31 March 2011					31 March 2012			
Carrying Value		Fair Value			Carrying Value		Fair Value	
Long-Term £M	Current £M	Long-Term £M	Current £M		Long-Term £M	Current £M	Long-Term £M	Current £M
				Financial Assets				
0.1	92.4	0.1	92.4	Loans and Receivables	0.5	61.0	0.5	61.0
-	-	-	-	Available-for-sale Financial Assets	-	-	-	-
16.8	-	16.8	-	Unquoted Equity Investment at Cost	16.9	-	16.9	-
16.9	**92.4**	**16.9**	**92.4**	**Total Financial Assets**	**17.4**	**61.0**	**17.4**	**61.0**
				Financial Liabilities				
(587.1)	(91.3)	(580.7)	(91.3)	Financial Liabilities at Amortised Cost	(532.1)	(100.8)	(569.0)	(100.9)
(587.1)	**(91.3)**	**(580.7)**	**(91.3)**	**Total Financial Liabilities**	**(532.1)**	**(100.8)**	**(569.0)**	**(100.9)**
(570.2)	**1.1**	**(563.8)**	**1.1**	**Net Financial Liabilities**	**(514.7)**	**(39.8)**	**(551.6)**	**(39.9)**

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

2010/2011 Financial Assets: Loans and Receivables £M	2010/2011 Financial Liabilities Measured at Amortised Cost £M	2010/2011 Total £M		2011/2012 Financial Assets: Loans and Receivables £M	2011/2012 Financial Liabilities Measured at Amortised Cost £M	2011/2012 Total £M
-	28.5	**28.5**	Interest Expense	-	28.2	**28.2**
(0.7)	-	**(0.7)**	Interest Income	(0.6)	-	**(0.6)**
(0.7)	**28.5**	**27.8**	**Net Expense (Income)**	**(0.6)**	**28.2**	**27.6**

The council holds a small amount of Treasury loans, which have been valued according to published quotations in an active market. The fair values of all other financial instruments have been derived from valuation techniques based on assumptions that are not supported by prices from observable current market transactions in the same instrument, and not based on available observable market data.

The fair values of the council's long-term financial liabilities at amortised cost have been calculated using the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. The discount rate used in the NPV calculation is equal to the current rate in relation to the same instrument from a comparable lender, being the rate applicable in the market on the date of valuation, for an instrument with the same duration: that is, equal to the outstanding period from valuation date to maturity.

<u>Note 7D – Risks Arising from Financial Instruments</u>

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 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.

<u>Credit and Counterparty Risk Management</u>

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. In order to form this assessment the council applies the creditworthiness model supplied by its external treasury advisors Sector, 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 2012 was £61.0M (31 March 2011: £92.3M). This relates entirely to Loans and Receivables. The council does not hold any collateral in respect of these amounts.

<u>Collateral and Other Credit Enhancements Obtained</u>

The council did not obtain any collateral or other credit enhancements during 2011/2012 or 2010/2011.

<u>Liquidity Risk Management</u>

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 Financial Liabilities by Maturity Date

Time until Repayment	£M
Payable next year (2012/2013)	8.9
Payable within two to five years	92.2
Payable within six to ten years	-
Payable within eleven to fifteen years	29.3
Payable within sixteen to twenty years	16.8
Payable within twenty-one to twenty-five years	-
Payable within twenty-six to thirty years	31.0
Payable within thirty-one to thirty-five years	44.3
Payable within thirty-six to forty years	27.5
Payable within forty-one to forty-five years	97.6
Payable within forty-six to fifty years	26.6
Payable within fifty-one to sixty years	103.8
Total	**478.0**

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 2011/2012, the council's interest payable would have increased by £5.1M, and its interest receivable would have increased by £0.5M, resulting in an increase in net expenditure of £4.6M. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £4.6M.

Exchange Rate Risk Management

The council manages its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

It 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.

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 £16.847M in Birmingham International Airport. 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 8 – Members of the Wolverhampton City Council Group and other Related Parties

Subsidiary

The council has one subsidiary entity: Wolverhampton Homes. Wolverhampton Homes 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.

Wolverhampton Homes's main income stream comes from the council, in the form of a management fee for housing management and maintenance which amounted to £37.9M in 2011/2012 (2010/2011: £37.2M). There are a number of other transaction streams between the two entities, including capital works carried out by Wolverhampton Homes for the council, support services provided by the council, and premises leases payable by Wolverhampton Homes. Payments by the council to Wolverhampton Homes amounted to £45.8M in 2011/2012, whilst payments by Wolverhampton Homes to the council totalled £4.2M. At the year end, Wolverhampton Homes owed the council £2.1M, and the council owed Wolverhampton Homes £0.8M.

Central Government

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties.

Members

Members of the council have direct control over the council's financial and operating policies. The total of member's allowances paid during the year is shown in Note 2C. The register of member's interests is open to public inspection at the Civic Centre during office hours.

Other Related Parties

The table below shows total expenditure and income streams of £0.1M or more with other related parties of the council during the year.

Entity and Nature of Relationship	2011/2012 Expenditure £M	2011/2012 Income £M
Birmingham Airport Holdings Ltd The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. In 2011/2012 the council received a preference dividend of £0.1M, ordinary dividend of £0.5M and rental income of £0.1M.	-	(0.7)
Wolverhampton Grand Theatre Ltd The Grand Theatre is managed by Wolverhampton Grand Theatre Limited. The council continues to own the building and retains the right to appoint or remove the majority of the members of the board of directors. The council provides grant funding to support the net cost of operating the theatre.	0.5	-
The Lighthouse Media Centre The Lighthouse Media Centre is an independent company that develops and supports the creative industries. The council provides grant funding to support the net cost of operating the centre. The Lighthouse Media Centre leases premises within the Chubb Building which is owned by the council.	0.2	-
Entities in which Members have declared an interest:		
West Midlands Integrated Transport Authority	14.0	-
West Midlands Police Authority	12.2	-
West Midlands Fire Service	3.5	-
City of Wolverhampton College	1.3	-
North East Wolverhampton Academy	0.8	-
Mencap	0.4	-
Black Country Housing Group	0.4	-
All Saints Action Network	0.4	-
Southwest and Bilston Academy	0.3	-
Wolverhampton Network Consortium	0.2	-
Heath Town Senior Citizens Welfare Project	0.2	-

Note 9 – Trust Funds

Wolverhampton City Council acts as a trustee for four trust funds. The funds do not represent the 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.

2010/2011				2011/2012		
Income £000	Expenditure £000	Fund Value at 31 March 2011 £000	Fund Name and Purpose	Income £000	Expenditure £000	Fund Value at 31 March 2012 £000
-	-	29	**Greenway Benefaction** Established for the convalescence, enjoyment, pleasure and amusement of poor children of Bradley.	-	-	29
-	6	9	**International Youth Exchange** Created to support international exchange programs.	1	-	10
-	-	41	**Springfield Reading Room** In its capacity as trustee, the council is authorised to apply income in various ways.	1	-	42
-	-	16	**Butler Bequest Music in the Parks** To provide music in the parks.	-	-	16
-	**6**	**95**	**Total**	**2**	**-**	**97**

Note 10 – Reconciliation of Financial Statements to Statutory Accounts

10A – Subjective Analysis of the Surplus or Deficit on the Provision of Services, and Reconciliation to Outturn for the Year

The table below shows the surplus or deficit on the provision of services, as shown in the group comprehensive income and expenditure statement, analysed by the categories of income and expenditure specified by the Code.

2010/2011 £M	*Category*	*2011/2012 £M*
(291.3)	*Fees, charges and other service income*	*(362.4)*
(2.5)	*Interest and investment income*	*(1.3)*
(93.5)	*Income from council tax*	*(93.1)*
(568.7)	*Government grants and contributions*	*(630.7)*
295.2	*Employee expenses*	*294.3*
867.6	*Other service expenses*	*643.7*
56.1	*Depreciation, amortisation and impairment*	*80.5*
29.2	*Interest payments*	*28.2*
12.8	*Precepts and levies*	*13.6*
2.1	*Payments to the national housing capital receipts pool*	*2.4*
(2.5)	*Gain or loss on the disposal of non-current assets*	*(4.0)*
304.5	***(Surplus) or deficit on the provision of services***	***(28.8)***

The following table shows the adjustments needed to get from the surplus or deficit on the provision of services as shown in the Group Comprehensive Income and Expenditure statement, to the surplus or deficit for the year calculated in line with the legal requirements.

2010/2011 £M		***2011/2012 £M***
304.5	*(Surplus) or deficit on the provision of services*	*(28.8)*
(320.3)	*Add: statutory adjustments*	*20.9*
6.6	*Less: Surplus or (deficit) attributable to subsidiaries*	*2.5*
(9.2)	***(Surplus) or deficit for the year***	***(5.4)***

10B – Detailed Analysis of Movement in Reserves Statement:

Part 1 – Usable Reserves

	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	Total Usable Reserves £M
Balance Brought Forward	**(39.5)**	**(63.5)**	**(5.1)**	**(4.6)**	**(1.8)**	**(37.1)**	**(151.6)**
Surplus or Deficit on Provision of Services	**25.0**	**-**	**(51.3)**	**-**	**-**	**-**	**(26.3)**
Other Comprehensive Income and Expenditure							
Revaluations - Gains and losses	-	-	-	-	-	-	**-**
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	-	**-**
Total Comprehensive Income and Expenditure	**25.0**	**-**	**(51.3)**	**-**	**-**	**-**	**(26.3)**
Adjustments between Accounting Basis & Funding Basis under Regulations							
Depreciation, amortisation & impairment of non-current assets	(75.4)	-	(5.1)	(15.0)	-	-	**(95.5)**
HRA Share of Contribution to Pension Reserve	(0.2)	-	0.2	-	-	-	**-**
Movement in the market value of Investment Properties	0.1	-	-	-	-	-	**0.1**
Revenue Expenditure Funded from Capital under Statute	(36.4)	-	-	-	-	-	**(36.4)**
Net Gain/Loss on sale of non-current assets (net book value of assets)	(0.1)	-	(1.7)	-	-	-	**(1.8)**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	1.6	-	4.8	-	(6.4)	-	**-**
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	0.1	-	-	-	-	-	**0.1**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	(1.3)	-	-	-	-	-	**(1.3)**

Part 1 – Usable Reserves (Continued)

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	Major Repairs Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
	£M	£M	£M	£M	£M	£M	£M
Net Charges made for retirement benefits in accordance with IAS 19	(33.7)	-	-	-	-	-	**(33.7)**
Capital Expenditure charged in the year to the General Fund	0.5	-	-	-	-	-	**0.5**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	(2.4)	-	-	-	2.4	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	26.6	-	-	-	-	-	**26.6**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	-	-	-	84.1	**84.1**
Capital grants and contributions unapplied credited to CIES	83.1	-	-	-	-	(83.1)	**-**
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	(0.9)	-	-	-	-	-	**(0.9)**
Capital Expenditure Financed from UCR	-	-	(12.1)	-	63.3	-	**51.2**
Other income that cannot be credited to the General Fund	0.3	-	-	-	-	-	**0.3**
Revenue provision for the repayment of debt	12.8	-	0.2	-	-	-	**13.0**
Transfer of HRA Settlement Receipts to UCR	-	-	59.8	-	(59.8)	-	**-**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	-	14.4	-	-	**14.4**
Net Increase/Decrease before Transfers & Other Movements	**(0.3)**	**-**	**(5.2)**	**(0.6)**	**(0.5)**	**1.0**	**(5.6)**
Transfers to/from other Earmarked Reserves	0.3	(0.1)	(0.2)	-	-	-	**-**
Balance Carried Forward	**(39.5)**	**(63.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**

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	Total Unusable Reserves £M
Balance Brought Forward	**5.3**	**(10.4)**	**(610.6)**	**(1.2)**	**3.0**	**367.8**	**(267.1)**	**(513.2)**
Surplus or Deficit on Provision of Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other Comprehensive Income and Expenditure								
Revaluations - Gains and losses	-	-	-	-	-	-	(10.2)	**(10.2)**
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	68.5	-	**68.5**
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**68.5**	**(10.2)**	**58.3**
Adjustments between Accounting Basis & Funding Basis under Regulations								
Depreciation, amortisation & impairment of non-current assets	-	-	86.4	-	-	-	9.1	**95.5**
HRA Share of Contribution to Pension Reserve	-	-	-	-	-	-	-	**-**
Movement in the market value of Investment Properties	-	-	(0.1)	-	-	-	-	**(0.1)**
Revenue Expenditure Funded from Capital under Statute	-	-	36.4	-	-	-	-	**36.4**
Net Gain/Loss on sale of non-current assets (net book value of assets)	-	-	1.3	-	-	-	0.5	**1.8**
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)	-	-	**(0.1)**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	-	-	-	1.3	-	-	-	**1.3**

Part 2 – Unusable Reserves (Continued)

	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
	£M	£M	£M	£M	£M	£M	£M	£M
Net Charges made for retirement benefits in accordance with IAS 19	-	-	-	-	-	7.1	-	**7.1**
Capital Expenditure charged in the year to the General Fund	-	-	(0.5)	-	-	-	-	**(0.5)**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	-	-	-	-	-	-	-	**-**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	(84.1)	-	-	-	-	**(84.1)**
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	-	-	**-**
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	0.9	-	-	-	-	-	-	**0.9**
Capital Expenditure Financed from UCR	-	-	(51.2)	-	-	-	-	**(51.2)**
Other income that cannot be credited to the General Fund	-	-	(0.3)	-	-	-	-	**(0.3)**
Revenue provision for the repayment of debt	-	-	(13.0)	-	-	-	-	**(13.0)**
Transfer of HRA Settlement Receipts to UCR	-	-	-	-	-	-	-	**-**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	(14.4)	-	-	-	-	**(14.4)**
Net Increase/Decrease before Transfers & Other Movements	**0.9**	**-**	**(39.5)**	**1.3**	**(0.1)**	**75.6**	**(0.6)**	**37.6**
Transfers to/from other Earmarked Reserves	-	-	-	-	-	-	-	**-**
Balance Carried Forward	**6.2**	**(10.4)**	**(650.1)**	**0.1**	**2.9**	**443.4**	**(267.7)**	**(475.6)**

10C – Description of Reserves

Name of Reserve	Description
Usable Reserves	
Revenue	
General Fund Balance	The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority 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.
Capital	
Major Repairs Reserve	The authority 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.

Name of Reserve	Description
<u>Unusable Reserves</u>	
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 reduced 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 and gains recognised on donated assets that have yet to be consumed by the council. 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.

Name of Reserve	Description
Collection Fund Adjustment Account	The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.
Accumulated Absences Account	The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, 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.

Note 11 – Accounting Policies

Note 11A – Accounting Policies Applying to these Statements

1. General Principles

The Statement of Accounts summarises the council's transactions for the 2011/2012 financial year and its position at 31 March 2012. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, 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. Accruals 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.

3. 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 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.

4. 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.

5. 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.

6. 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 property, plant and equipment 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 for the difference between the two.

7. Employee Benefits
<u>Benefits Payable During Employment</u> - Short-term employee benefits are those due to be settled 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.

<u>Termination Benefits</u> - 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, and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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 two separate pension schemes:

- The Teachers’ Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;

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

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

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 seven components:

- 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 as part of Non-Distributed Costs;
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
- 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 funding 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 made to the Surplus/Deficit on the Provision of Services 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 are earned by employees.

<u>Discretionary Benefits</u> - The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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.

8. 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 and the date when the Statement of Accounts is authorised for issue. There are two types of event:

- 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.

9. 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 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. 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 derecognition 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 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.

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 derecognition 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).

10. Foreign Currency Translation

Where the council entered into a transaction denominated in a foreign currency, the transaction was converted into sterling at the exchange rate applicable on the date the transaction was effective. No amounts in foreign currency were outstanding at the year end.

11. 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.

12. 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 would not be capitalised if the website were 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.

13. Interests in Companies and Other Entities

The council is the sole owner of a company where its interest has the nature of a subsidiary (Wolverhampton Homes), which requires it to prepare group accounts. It has no other material interests in companies or other entities that have the nature of a subsidiary, associate or jointly-controlled entity.

14. Inventories

Inventories are included on the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula.

15. 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 fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued 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 posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Jointly Controlled Operations and Jointly Controlled Assets

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

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

17. 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 writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability, and a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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 also 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 rental receivable is 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 posted 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 posted 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.

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

18. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SERCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the council's status as a multi-functional, democratic organisation.

- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

19. 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. 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 - fair value, determined using the basis of existing use value for social housing (EUV-SH);
- All other assets - fair 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair 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 fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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.

<u>Depreciation</u> - 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 calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property 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.

<u>Disposals and Non-Current Assets Held for Sale</u> - When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before

reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease in 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 fair value are recognised only up to the amount of any previously recognised losses 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 classified as 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 on 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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, 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.

20. 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 fair 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 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 - debited to the relevant service in the Comprehensive Income and Expenditure Statement;

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

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

- Payment towards liability - applied to write down the Balance Sheet liability to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);

- Lifecycle replacement costs - 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.

21. Provisions, Contingent Liabilities and Contingent Assets

<u>Provisions</u> - 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 council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

22. Reserves

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

23. 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.

24. 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.

25. 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 given in summary form 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 Assistant Director - Corporate Services (Section 151 Officer), Civic Centre, Wolverhampton, WV1 1RL.

26. 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 fair 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.

27. 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 its introductory phase which will last until 31 March 2014. 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 reporting date. The cost to the authority is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption.

Note 11B – Changes in Accounting Policies from Last Year

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the council. As set out in the accounting policies above, the council is now required to report heritage assets in the Balance Sheet at valuation. Previously, heritage assets were either recognised as Community Assets (at cost) in the Property, Plant and Equipment classification in the Balance Sheet, or were not recognised where it was not possible to obtain cost information.

In applying the new accounting policy, the council has identified that the assets that were previously held as community assets at £1,000 should now be recognised as heritage assets and measured at £11.1M, with a corresponding increase in the Revaluation Reserve. There are no other changes to the Balance Sheet, and there are no effects on the Comprehensive Income and Expenditure Statement for 2010/2011 or 2011/2012. Further details on heritage assets can be found at Note 5.

Note 11C – 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, 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, and it has therefore been consolidated within the Group Accounts.

The council is the main funder of the Grand Theatre, and in practice bears the risk of the Theatre going into overall deficit. However, it has been determined that the transactions and balances of the theatre 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 International Airport. However, it has been determined that the council does not have the power to influence or control the Airport, and it has therefore not been consolidated in the Group Accounts.

Private Finance Initiative (PFI) Contracts

The council provides services via private sector partners under a PFI contract in two areas: Waste Management, and Bentley Bridge Leisure Centre. In both cases, it has been determined that the council controls the use of the relevant non-current assets such that they are recognised as assets of the council, and a corresponding liability has been recognised in the council's accounts.

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. The charge to the provision in 2011/2012 has been accounted for as an exceptional item due to the nature of the transaction.

Property, Plant and Equipment belonging to Voluntary Aided and Voluntary Controlled Schools

The council owns land on which a number of voluntary aided and controlled schools have, with its consent, placed buildings. The 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.

National Insurance Contributions
The council is currently working with Her Majesty's Revenue and Customs (HMRC) as a result of enquiries regarding aggregation of earnings for National Insurance Contributions purposes. Having taken advice from Leading Counsel the council believes that it currently meets the requirements for non-aggregation and has written to HMRC setting out the legal arguments to substantiate this. A reply to this letter is still awaited from HMRC. Should HMRC's response, and any subsequent legal process, be that the council has not met the requirements for non-aggregation the financial implications for the council could be significant. It is however not possible to estimate the extent of the potential financial implications at this stage due to the complex nature of this matter. The council is being supported and advised on this matter by Elysian Associates, a firm of VAT and taxation consultants, and also Leading Counsel Mr Timothy Lyons QC.

Accounting for the Voluntary Redundancy Programme
The council undertook a major voluntary redundancy exercise during 2011/2012, 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 in 2011/2012 where it seemed likely that approval would be given and a redundancy would result.

Note 11D – 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. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the council's Balance Sheet at 31 March 2012 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 pensions 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 £19.1M	*Decrease of £21.3M*
Salary Inflation 0.1% p.a. higher	Increase of £19.5M	*Increase of £21.7M*
Life expectancy of scheme members 1 year higher	Increase of £22.5M	*Increase of £24.4M*

Property, Plant and Equipment
In accordance with the requirements of the Code, the council revalues its property, plant and equipment assets on a five-yearly cyclical basis. As a result, it always carries a number of such assets at values which are not recent, but which are nonetheless assumed to be materially correct.

Note 11E – Accounting Standards Issued but Not Yet Adopted

In accordance with the Code, the council has not adopted the amendments to IFRS 7 Financial Instruments (Disclosures) (issued October 2010), but will do so from 1 April 2012. The amended requirements relate to financial assets that are transferred but not derecognised. For the purposes of these requirements, an authority transfers all or part of a financial asset (the transferred financial asset) if, and only if, it either:

a) transfers the contractual rights to receive the cash flows of that financial asset, or
b) retains the contractual rights to receive the cash flows of that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

The council did not have any financial assets transferred but not derecognised, nor an ongoing involvement in any other transferred assets during the years or balance sheet dates covered by these statements, and therefore adopting the standard would have had no impact on the financial statements.

7. THE HOUSING REVENUE ACCOUNT STATEMENTS

Housing Revenue Account Income and Expenditure Statement

2010/2011 £M		Notes	2011/2012 £M
(74.2)	Gross Rents - Dwellings		(78.9)
(1.5)	Gross Rents - Non Dwellings		(1.5)
(4.2)	Charges to Tenants for Services and Facilities		(4.6)
-	Contributions Received		(0.1)
(79.9)	**Total Income**		**(85.1)**
25.6	Repairs and Maintenance		25.3
17.5	Supervision and Management		18.0
0.1	Rents, Rates and Taxes		0.2
5.7	Negative HRA Subsidy Payable	**H1**	7.0
0.2	Increase in Allowance for Bad Debts		0.8
15.9	Depreciation of Property, Plant and Equipment	**H2**	15.7
412.3	Impairment of Property, Plant and Equipment	**H3**	4.4
-	Revenue Expenditure Funded from Capital under Statute		-
0.1	Debt Management Costs		-
477.4	**Total Expenditure**		**71.4**
397.5	**Net Cost of HRA Services as Included in Council Comprehensive Income and Expenditure Statement**		**(13.7)**
0.2	HRA Share of Corporate and Democratic Core		0.2
397.7	**Net Cost of HRA Services**		**(13.5)**

2010/2011 £M		Notes	2011/2012 £M
(2.0)	(Gain) or Loss on Sale of Property, Plant and Equipment		(3.0)
(1.0)	(Gain) or Loss on the Fair Value of Investment Assets		-
13.3	Interest Payable		13.0
-	Premiums and Discounts		12.0
-	Interest and Investment Income		-
-	Capital Grants and Contributions: HRA Self-financing Settlement		(59.8)
408.0	**(Surplus) or Deficit for the Year**		**(51.3)**

Movement on the Housing Revenue Account Balance Statement

2010/2011 £M		Notes	2011/2012 £M
(3.5)	**Opening HRA Balance**		**(5.1)**
	(Increase) in the HRA balance for the year analysed between:		
408.0	- (Surplus) or Deficit for the year on the Income and Expenditure Account		(51.3)
(409.6)	- Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for the year	**H4**	45.9
(1.6)	**(Increase) in the HRA balance for the year**		**(5.4)**
(5.1)	**Closing HRA Balance**		**(10.5)**

Notes to the Housing Revenue Account Statements

Note H1 – Housing Revenue Account Subsidy

2010/2011 £M		2011/2012 £M
	Subsidy claimed in respect of:	
(40.3)	- Management and Maintenance	(41.0)
(14.8)	- Major Repairs Allowance	(15.0)
(14.0)	- Charges for Capital	(14.6)
(69.1)		**(70.6)**
	Less:	
-	- Mortgage Interest	-
(75.2)	- Guideline Rent Income	(77.5)
(75.2)		**(77.5)**
6.1	**Total Subsidy Payable for the Year**	**6.9**
(0.4)	Adjustment re Prior Year Subsidy	0.1
5.7	**Total Subsidy Recognised this Year**	**7.0**

Note H2 – Depreciation

2010/2011 £M (Restated)		2011/2012 £M
14.8	Council Dwellings	15.0
0.8	Other Land and Buildings	0.4
0.3	Vehicles, Plant, Furniture and Equipment	0.3
15.9	**Total Depreciation Charge for the Year**	**15.7**

Under the Housing Revenue Account regulations, depreciation and impairment charges are reversed out and replaced with MRP.

Note H3 – Impairment

2010/2011 £M (Restated)		2011/2012 £M
404.5	Council Dwellings	1.4
7.8	Other Land and Buildings	3.0
412.3	**Total Impairment Charge for the Year**	**4.4**

The impairment charges for dwellings, garages and shops are in respect of assets either demolished or earmarked for demolition during the year. The value of the impairment is equal to the net book value of the assets at the beginning of the financial year.

Note H4 – Analysis of the Movement on the HRA Balance Statement

2010/2011 £M		Note	2011/2012 £M
(409.6)	**Net additional amount required to be debited or credited to the HRA Balance**		**45.9**
	Comprising:		
	Amounts included in the Income and Expenditure Account but not in the HRA Balance		
(1.2)	- Excess of HRA depreciation charge over MRA		(0.7)
(412.3)	- Impairment of Property, Plant and Equipment	**H3**	(4.4)
-	- Amortisation of Deferred Government Grants		-
2.0	- Net Gain or (Loss) on Sale of Property, Plant and Equipment		3.1
-	- Capital Receipts from Sale of De Minimis Assets		-
-	- Net Revenue Expenditure Funded from Capital under Statute		-
-	- Adjustment for Premiums and Discounts		-
-	- Employee Leave Accrual		-
1.0	- Net Gain or (Loss) on the Fair Value of Investment Assets		-
-	- Capital Grants and Contributions : HRA Self-financing Settlement		59.8
-	- Credit from Usable Capital Receipts Reserve : HRA Self-financing Settlement		(12.1)
(410.5)			**45.7**
	Amounts not in the Income and Expenditure Account but included in the HRA Balance		
0.3	- HRA Share of Contribution to Pension Reserve	**H5**	0.2
0.4	- Amount Set Aside for the Repayment of Debt		0.2
0.2	- Transfer to/(from) Earmarked Reserves		(0.2)
0.9			**0.2**
(409.6)	**Total**		**45.9**

Note H5 – 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 H6 – 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 2011		31 March 2012
5,066	Low Rise Flats	5,050
3,027	Medium Rise Flats	3,024
2,119	High Rise Flats	2,119
13,258	Houses and Bungalows	13,211
23,470	**Total Dwellings Owned by the Council**	**23,404**
14	Homeless Dwellings (Leased)	14
23,484		**23,418**

Note H7 – 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 2011 £M (Restated)		31 March 2012 £M
648.2	- Council Dwellings	672.1
17.2	- Other Land and Buildings	10.6
0.7	- Vehicles, Plant, Furniture and Equipment	0.4
0.9	- Intangible Assets	0.8
667.0	**Total Property, Plant and Equipment**	**683.9**

Note H8 – The Vacant Possession Value of Dwellings

The vacant possession value of the current stock of dwellings at 1 April 2010 values amounted to £1,976.8M. The value of dwellings shown on the Balance Sheet is the existing use value (social housing), which is 34% 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 H9 – 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.

2010/2011 £M		2011/2012 £M
	Sources of Funding	
(46.1)	- Borrowing	(24.2)
-	- Usable Capital Receipts	(2.1)
(10.3)	- Major Repairs Reserve	(14.4)
(0.4)	- Government and EU Grants	-
(1.3)	- Other Grants and Contributions	(0.4)
(58.1)	**Total Capital Expenditure**	**(41.1)**

Capital receipts generated during 2011/2012 from the disposal of HRA assets totalled £4.8M, as detailed in the following table.

2010/2011 £M		2011/2012 £M
(2.8)	Sale of Council Houses (Right-to-Buy)	(3.2)
(0.6)	Sale of Other Land and Buildings	(1.6)
-	Mortgages Principal Repayments	-
-	Repaid Discounts	-
(3.4)	**Total Capital Receipts**	**(4.8)**

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

2010/2011 £M		2011/2012 £M
(2.1)	Paid over to Government	(2.4)
(1.3)	Available to Finance Capital Expenditure	(2.4)
(3.4)	**Total Capital Receipts**	**(4.8)**

Note H10 – Rent Arrears

During 2011/2012, total rent arrears increased by £0.4M (26.7%). Within total rent arrears, current tenants' arrears as a proportion of net rental income increased from 4.6% to 6.0%. The comparative total figures are shown in the following table.

31 March 2011 £M		31 March 2012 £M
1.1	Current Tenants	1.6
0.4	Former Tenants	0.3
1.5	**Total Arrears**	**1.9**

An allowance is maintained for these debts. The table below details the movement in the year.

2010/2011 £M		2011/2012 £M
1.3	**Allowance for Bad and Doubtful Debts Brought Forward**	**1.2**
(0.3)	Amounts Written Off during the Year	(0.4)
0.2	Increase in Allowance Charged to the HRA during the Year	0.7
1.2	**Allowance for Bad and Doubtful Debts Carried Forward**	**1.5**

Note H11 – 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 is determined by the Government as part of the 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.

2010/2011 £M		2011/2012 £M
(0.1)	**Balance Brought Forward**	**(4.6)**
(14.8)	Transfer of MRA from the Capital Adjustment Account	(15.0)
10.3	Capital Expenditure on Land and Property in the HRA	14.4
(4.6)	**Balance Carried Forward**	**(5.2)**

8. THE COLLECTION FUND STATEMENT

The Collection Fund Statement

2010/2011 £M		Note	2011/2012 £M
(0.9)	**(Surplus) / Deficit Brought Forward**		**(0.9)**
	Income		
(77.8)	Council Tax	**C1**	(77.5)
(27.2)	Transfers from General Fund: Council Tax Benefits		(27.4)
(67.1)	Non Domestic Rates		(69.8)
(172.1)	**Total Income**		**(174.7)**
	Expenditure		
	Precepts and Demands		
93.4	Wolverhampton Council		93.5
7.1	West Midlands Police		7.1
3.4	West Midlands Fire and Civil Defence		3.4
103.9			**104.0**
	Non Domestic Rates		
65.7	Payment to National Pool	**C2**	66.9
0.4	Cost of Collection Allowance		0.4
0.1	Interest Payment		-
66.2			**67.3**

8. THE COLLECTION FUND STATEMENT

2010/2011 £M		Note	2011/2012 £M
	Distribution of Council Tax Surplus/(Payment of Deficit)		
0.5	Wolverhampton Council		0.5
-	West Midlands Police		-
-	West Midlands Fire and Civil Defence		-
0.5			**0.5**
	Allowance for Bad and Doubtful Debts		
0.6	Council Tax		1.4
0.9	Non Domestic Rates		2.4
1.5	Total Allowance for Bad and Doubtful Debts		**3.8**
172.1	**Total Expenditure**		**175.6**
-	**(Surplus)/Deficit for the Year**		**0.9**
(0.9)	**(Surplus)/Deficit Carried Forward**		**-**

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	Council Tax (Single Person Household) £	Council Tax (Multiple Occupancy) £
A Disabled	79	5/9	44	610	813
A	46,813	6/9	31,209	732	976
B	20,086	7/9	15,622	854	1,139
C	14,190	8/9	12,613	976	1,301
D	5,652	9/9	5,652	1,098	1,464
E	2,679	11/9	3,274	1,342	1,789
F	1,528	13/9	2,207	1,586	2,115
G	800	15/9	1,333	1,830	2,440
H	83	18/9	166	2,196	2,928
	91,908		**72,119**		
Add: Additional Band D Equivalent Dwellings from removing 50% Council Tax Discount for owners of long term void homes			13		
Less: Reliefs and deletions			(27)		
Less: Allowance for collection difficulties (98.5%)			(1,082)		
Total Band D Tax Base			**71,023**		

Note C2 – National Non-Domestic Rates

National Non-Domestic Rates (NNDR) is organised on a national basis. The council collects non domestic rates for its area, which are based on rateable values (as determined by the District Valuer) multiplied by the uniform rate multiplier set by the government. The total amount, subject to the effects of transitory arrangements, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn redistributes the sums paid into the pool back to each local authority's General Fund, on the basis of a fixed amount per head of population.

2010/2011 £M		2011/2012 £M
79.4	Non Domestic Rateable Value (31 March 2012: 192.1M; 31 March 2011: £191.7M) Multiplied by Uniform Rate for year: (2011/2012: 43.3p; 2010/2011: 41.4p)	82.9
(13.7)	Transitional Surcharges and Adjustments (less Allowances)	(16.0)
65.7	**Contribution to NNDR Pool**	**66.9**

Fund Account

2010/2011 £000		Note	2011/2012 £000
	Contributions & Benefits		
434,996	Contributions Receivable	**P7**	412,714
20,950	Transfers In	**P8**	65,024
44,451	Other Income	**P9**	16,241
500,397	**Total contributions and other income**		**493,979**
395,994	Benefits Payable	**P10**	469,189
21,751	Payments to and on account of leavers	**P11**	16,568
192	Other Payments		281
5,518	Administration Expenses	**P12**	5,372
423,455	**Total benefits and other expenditure**		**491,410**
76,942	**Net additions from dealings with members**		**2,569**
	Returns on Investments		
129,755	Investment Income	**P13**	179,344
285,592	Changes in Value of Investments		(72,581)
179,283	Profit and Losses on Disposal of Investments		92,742
(7,337)	Investment Management Expenses	**P12**	(15,607)
587,293	**Net return on investments**		**183,898**
664,235	**Net increase in the Fund during the year**		**186,467**
8,007,875	**Net Assets of the Fund at the beginning of the year**		**8,672,110**
8,672,110	**Net Assets of the Fund at the end of the year**		**8,858,577**

Net Assets Statement

31 March 2011 £000		Note	31 March 2012 £000
	Investment Assets (at Market Value)	**P14**	
152,799	Fixed Interest Securities		158,770
975,369	UK Equities		861,175
1,901,451	Overseas Equities		1,735,590
4,871,019	Pooled Investment Vehicles		5,236,270
571,100	Property		615,422
28,269	Foreign Currency Holdings		43,709
99,272	Cash Deposits		139,297
5	Other Investments assets		248
12,302	Outstanding dividend entitlement and recoverable with-holding tax		11,104
8,611,586	**Investment Assets**		**8,801,585**
	Investment Liabilities (at Market Value)	**P14**	
-	Other Investments liabilities		-
-	**Investment Liabilities**		**-**
8,611,586	**Net Investment Assets**		**8,801,585**
77,399	**Current Assets**	**P17**	**70,043**
(16,875)	**Current Liabilities**	**P18**	**(13,053)**
8,672,110	**Net Assets of the Fund at the end of the year**		**8,858,575**

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, 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 West Midlands Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

The City Council Superannuation Committee administers the Pension Fund function. It meets at approximately quarterly intervals, and has members from each of the seven Metropolitan District Councils in the West Midlands Region. An Investment Advisory Sub-Committee and a Joint Consultative Panel have been established to deal with these two areas of management and administration of the Fund.

The Fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. Membership of the Fund is available for 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 admitted bodies. Employees' contributions are payable at a percentage of pensionable pay (between 5.5% and 7.5%, based on gross pay), while employers' contributions are payable at the rate specified for each employing authority by the Fund's Actuary.

The Fund's Statement of Investment Principles (SIP) can be found in the Annual Report and on the fund's website: www.westmids-pensions.org.uk.

Note P2 – Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2011/2012 financial year and its position at the year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/2012 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 P5 of these accounts.

Note P3 – Statement of Accounting Policies

Note P3A - Inclusion of Income and Expenditure

1. Fund Account

In the fund account income and expenditure are accounted for in the year in which they arise by the creation of debtors and creditors 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 P8).

2. Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates set out in notes P1 and P5 for basic contributions. Additional contributions as notified by employers for the period have also been included.

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

3. Transfers To and From other schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the Scheme as at 31 March 2012, calculated in accordance with the Local Government Pension Scheme Regulations (see notes P8 and P11). They are not accounted for on an accruals basis.

4. Investment 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.

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.

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.

Property-related income - consists primarily of rental income. Rental income from operating leases on properties owned by the fund 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.

During 2011/2012, due to improved reporting facilities, an additional quarter property rental income was posted into the accounts in order to bring the data up to date and to reduce the reporting in arrears by one quarter.

5. Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2012 relating to the financial year 2011/2012.

6. Foreign Currency Transactions

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 2012.

Note P3B – Valuation of Investments

The market values of investments as shown in the net assets statement have been determined as follows:-

1. Quoted Securities

Securities have been valued at the bid-market price ruling on 31 March 2012 where a quotation was available on a recognised stock exchange or unlisted securities market.

2. Unquoted Securities

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 report has not been received from the fund manager the security is valued at cost.

3. Pooled Investment Vehicles

Pooled Investment Vehicles are stated at the bid-point of the latest prices quoted or the latest single market prices. In the case of the pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.

4. 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 2012. Agricultural properties were valued by F P D Savills Limited, Agricultural Valuers at the same date. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. The valuation undertaken at 31 March 2012 was therefore one third full valuation, and the remaining two thirds desktop valuations.

5. Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraphs P3B1 to P3B2 above and translated at exchange rates ruling at 31 March 2012.

6. 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 market value of investment.

Note P3C – 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.

Note P3D - 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.

Note P3E - Investment Management Expenses

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, and as such will fluctuate as the valuations change.

In addition, performance related fees are negotiated with a number of managers and performance related fees totalled £7.0M in 2011/2012 and £0.5M in 2010/2011.

Where a management fee notification has not been received by the 31st March, an estimate is used for inclusion in the fund account.

The cost of using advice from external consultants is included in investment management fees.

The cost of in-house management is charged to the Fund, as is an element of the administering authority's officers time spent on management of the Pension Fund.

Note P3F - Membership

Overall membership of the Fund at the end of the year was as follows:-

31 March 2011		31 March 2012
102,011	Active Members	95,478
70,521	Pensioner Members	75,228
81,161	Deferred Members	84,467

A detailed list of Member bodies is available at note P23.

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 2012 was £1,099.0M (£926.0M at 31 March 2011).

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 5. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note P4A - 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. Mercers, 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 31st March 2012	Approx % increase in liabilities	Approx monetary value £M
0.5% p.a. decrease in discount rate	9%	1,253
1 year increase in member life expectancy	2%	260
0.5% p.a. increase in salary increase rate	3%	336
0.5% p.a. increase in pensions increase rate*	7%	897

*including allowance for change to deferred pension increases

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 £1,099.0M. There is a risk that this investment may be under-or overstated in the accounts.

Hedge funds

Uncertainties
Hedge funds valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the directors or independent administrators judge necessary. Where these investments are not publicly listed there is a degree of estimation involved in the valuation.

Effect if actual results differ from assumptions
The total hedge funds value in the financial statements is £537.0M. There is a risk that these investments may be under-or overstated in the accounts. Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of </-£27.0M.

Note P5 – Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2010 by the Fund's Actuary, P Middleman of Mercer Human Resource Consulting Limited. The Actuary has determined the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £8,008.0M represented 75% of the Funding Target of £10,622.0M at the valuation date. The valuation also showed that a common rate of contribution of 11.9% 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.2% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. These contributions were determined having regard to the individual circumstances of each employer and included specific allowances (zero for some employers) for early retirement costs. Additional payments will be made by employers where the non-ill health early retirement costs exceed the allowances certified.

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. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

9. WEST MIDLANDS PENSION FUND STATEMENTS

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2011. The rates payable by the Unitary Authorities were certified as follows:

Future Service Rate (% of pay) plus lump sum (£)			
	2011/2012	**2012/2013**	**2013/2014**
Birmingham City Council	12.1% plus £26,500,000	12.1% plus £27,800,000	12.1% plus £29,100,000
Coventry City Council	12.1% plus £6,300,000	12.1% plus £6,600,000	12.1% plus £6,900,000
Dudley MBC	11.8% plus £5,500,000	11.8% plus £5,700,000	11.8% plus £6,000,000
Sandwell MBC	11.7% plus £7,500,000	11.7% plus £7,900,000	11.7% plus £8,300,000
Solihull MBC	11.7% plus £4,100,000	11.7% plus £4,300,000	11.7% plus £4,500,000
Walsall MBC	11.7% plus £7,700,000	11.7% plus £8,000,000	11.7% plus £8,400,000
Wolverhampton City Council	12.2% plus £7,100,000	12.2% plus £7,400,000	12.2% plus £7,800,000

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:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- Pre retirement	6.5% per annum	6.75% per annum
- Post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The Administering Authority determined that certain employers with a lesser financial covenant (based on criteria set by the Administering Authority) would have their contribution requirement assessed with reference to more cautious actuarial assumptions based on gilt yields. Further details surrounding this approach can be found in the FSS and the Administering Authority's separate document on admitted bodies.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.65% per annum	4.25% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £12,086.0M and £13,226.0M respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £469.0M.

Note P6 - Taxation

1. Value Added Tax

The Fund 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. Where relief is available it may be either in full at source (USA, Belgium, Australia, Finland and Norway), or partial relief by claim (Austria, Denmark, France, Germany, Netherlands, Switzerland and Spain).

In some markets (Poland, Canada, Italy, and Sweden) tax is deducted at the treaty rate so that no further adjustment is required, and there are also markets (Malaysia, Hong Kong and Singapore) where no double taxation agreements exist and where the full amount is payable.

Note P7 – Contributions Receivable

Contributions receivable are analysed below:-

2010/2011 £000		2011/2012 £000
	From Employers	
293,197	Basic Contributions	281,356
6,800	Deficit Funding	6,725
466	Augmented Membership	158
14,718	Additional Cost of Early Retirement	13,909
315,181		**302,148**
	From Employees	
118,414	Basic Contributions	109,486
1,401	Additional Contributions	1,080
119,815		**110,566**
434,996	**Total Contributions**	**412,714**

The additional contributions above represent the purchase of added membership or additional benefits under the Pension Scheme and are included in the revenue accounts.

Several organisations made small augmented membership payments as one offs to remove liability relating to individual employees who had left their employment.

In 2011/2012 one admitted body, BXL, went into liquidation with an outstanding liability identified by the actuary of £4,040,836. It is anticipated that the Fund will receive in the order of £300,000 once the liquidation is finalised.

A further admitted body, Adoption Support, terminated their agreement in January 2012 without the necessary funds to meet their outstanding liabilities of £98,200. The Fund has since recovered £30,000 from the remaining assets.

Payments can be analysed by type of Member Body as follows:-

2010/2011 £000		2011/2012 £000
31,263	Administering Authority	31,054
376,341	Scheme Employers	360,361
27,392	Admitted Employers	21,299
434,996	**Total**	**412,714**

Note P8 – Transfers In

2010/2011 £000		2011/2012 £000
20,950	Individual transfers in from other schemes	65,024

Following the transfer of Staffordshire Probation staff from Staffordshire Pension Fund on 1 April 2010, the Fund received a payment of £46.0M on 27 March 2012. A further residual balance is expected in 2012/2013 following full finalisation of the required calculations

Note P9 – Other Income

2010/2011 £000		2011/2012 £000
	Benefits Recharged to Employers	
10,192	Compensatory Added Years	9,327
6,582	Pensions Increases	6,914
27,677	Magistrates Courts Committee	-
44,451	**Total**	**16,241**

Note:- Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Ltd that the Fund is due to receive a total of £27,677,168. 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 £3,261,152. The balance due included in Other Debtors is £24,909,451.

Note P10 – Benefits Payable

An analysis of expenditure on benefits by type is given below:-

2010/2011 £000		2011/2012 £000
	Pensions	
269,447	Retirement Pensions	299,939
23,320	Widows' Pensions	24,365
865	Children's' Pensions	900
2,353	Widowers' Pensions	2,732
77	Ex-Spouse	102
91	Equivalent Pension Benefits	98
5	Civil Partnership	11
3	Co-habiting Partners	4
296,161	**Total Pensions**	**328,151**
	Lump Sum Benefits	
89,808	Retiring Allowances	130,341
10,025	Death Grants	10,697
99,833	**Total Lump Sum Benefits**	**141,038**
395,994	**Total Benefits Payable**	**469,189**

The total benefits payable can be analysed by type of Member Body as follows:-

2010/2011 £000		2011/2012 £000
32,608	Administering Authority	37,551
337,081	Scheme Employers	405,088
26,305	Admitted Employers	26,550
395,994	**Total**	**469,189**

Note P11 – Payments To and On Account of Leavers

2010/2011 £000		2011/2012 £000
21,701	Individual transfers out to other schemes	16,568
42	Refunds of Contributions	30
8	State Scheme Premiums	(30)
21,751	**Total**	**16,568**

Note P12 – Investment and Administration Expenses

Costs incurred in the management of the investments of the Fund and the administration of the Fund have been charged to the Fund in accordance with the Local Government Pension Scheme Regulations and can be analysed as follows:

2010/2011 £000		2011/2012 £000
	Administration	
5,142	Pensions Administration	4,893
296	Actuarial fees	400
59	Audit fees	62
21	Legal and other professional fees	17
5,518	**Total Administration**	**5,372**
	Investments	
4,729	External management of investments	13,101
2,191	In-house management of investments	2,199
31	Performance Measurement Service	33
39	Property and legal fees	126
347	Safe Custody Expenses	148
7,337	**Total Investments**	**15,607**

The pension’s administration function and the in-house management of investments are performed by Wolverhampton City Council and the costs shown in the table above are recharged to the Pension Fund each year on an estimated basis with an end of year adjustment for actual costs shown as a debtor or creditor in the accounts. This is a related party transaction as Wolverhampton City Council is also a member body of the fund. Key management personnel who are employees of the administering authority and members of the Pension Fund are disclosed in the administering authority's statement of accounts along with details of remuneration and pensions contributions.

Performance related fees are negotiated with a number of managers. Included in external management of investments in are performance related fees of £7.0m in 2011/2012 and £0.5m in 2010/2011.

Note P13 – Investment Income

Investment income is analysed below:-

2010/2011 £000		2011/2012 £000
	Dividends and Interest	
	Fixed Interest Securities	
9,531	UK Private Sector – Quoted	8,557
	Equities	
33,213	UK	33,869
44,496	Overseas	45,884
	Pooled Investment Vehicles	
9,825	UK	32,389
-	UK - Re-invested Income, prior years	23,064
1,972	Overseas Equities	3,336
133	Private Equity	414
749	Interest on Cash Deposits	670
1,766	Stock lending	1,092
(68)	UK Tax, Irrecoverable	(27)
(2,194)	Overseas Taxation	(2,428)
99,423	**Total Dividends and Interest**	**146,820**
37,823	Property Management Income	42,956
(7,491)	Property Management Expenses	(10,432)
30,332		**32,524**
129,755	**Total Investment Income**	**179,344**

During 2011/2012, re-invested income of £31.7M was allocated to UK Pooled Investment Vehicles in relation to the Funds holding in the Schroders All Maturities Corporate Bond Fund. A corresponding purchase of units is included in the purchase costs detailed in note P15 to the accounts.

Stock lending

The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £69.6M (2011: £60.9M) in exchange for which the custodian held collateral worth £74.0M (2011: £63.9M). Collateral consists of acceptable securities and government debt.

Note P14 – Net Investment Assets

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

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.

31 March 2011 £000		31 March 2012 £000
	Fixed Interest Securities	
152,799	UK Companies – Segregated (external)	158,770
152,799		**158,770**
	UK Equities	
975,369	Quoted	861,175
-	Quoted – Segregated (external)	-
975,369		**861,175**
	Overseas Equities	
1,583,899	Quoted	1,438,079
317,552	Quoted – Segregated (external)	297,511
1,901,451		**1,735,590**
	Pooled Investment Vehicles	
	Managed Funds	
207,091	UK Quoted, Fixed Interest	188,770
187,524	Other Fixed Interest	416,332
735,084	UK Quoted, Index Linked	870,714
913,541	Overseas Equities	828,862
341,666	UK Unquoted Equities	232,252
1,347,075	Overseas Unquoted Equities	1,339,192
593,760	UK Absolute Returns	699,319
68,495	Overseas Absolute Returns	92,169

31 March 2011 £000		31 March 2012 £000
21,065	UK Property	32,792
147,248	Foreign Property	194,615
	Unit Trusts	
25,223	UK Quoted Equities	3,528
274,256	Overseas Equities	329,147
8,991	Overseas Property	8,578
4,871,019		**5,236,270**
	Property	
545,100	UK Freehold	589,072
26,000	UK Leasehold*	26,350
571,100		**615,422**
	Foreign Currency Holdings	
13,024	United States Dollars	29,462
8,000	Euro	1,049
706	Canadian Dollars	979
690	Danish Kroner	1,085
590	Hong Kong Dollars	1,907
378	Swedish Kroner	449
571	Swiss Francs	669
1,031	Japanese Yen	1,053
751	Norwegian Kroner	551
-	Malaysian Ringits	1
474	Singapore Dollars	641
1,097	Australian Dollars	4,168
17	New Zealand Dollars	17
388	Hungarian Florints	553

31 March 2011 £000		31 March 2012 £000
415	Polish Zloty	27
137	Israeli Shekels	-
-	Turkish Lira	297
-	Czech Koruna	801
-	Korean Won	-
28,269		**43,709**
	Cash Deposits	
99,272	UK	139,297
	Other Investments	
5	Broker Balances	248
12,302	Outstanding Dividend Entitlement and Recoverable with-holding Tax	11,104
8,611,586	**Total Net Investment Assets**	**8,801,585**

* All leasehold properties are held on long leases

The following investments represent more than 5% of the net assets of the scheme:

31st March 2011 Market Value £000	31st March 2011 % of total Market Value %		31st March 2012 Market Value £000	31st March 2012 % of total Market Value %
		Security		
485,117	5.6	Legal & General - All Stocks Index-Linked Gilts Fund	512,558	5.8

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 2011 Market Value £000	31 March 2011 % of total Market Value %		31 March 2012 Market Value £000	31 March 2012 % of total Market Value %
3,243,015	37.7	In-house	3,077,223	35.0
49,115	0.6	Managers: UK Quoted	24,236	0.3
99,481	1.2	Managers: US Quoted	107,739	1.2
206,120	2.4	Managers: European Quoted	174,908	2.0
34,530	0.4	Managers: Japanese Quoted	34,390	0.4
98,974	1.2	Managers: Pacific Basin	97,096	1.1
608,446	7.1	Managers: Emerging Markets	556,858	6.3
457,797	5.3	Managers: Global Equities	484,529	5.5
1,282,498	14.9	Managers: Fixed Interest	1,634,586	18.6
168,312	2.0	Managers: Indirect Property	235,984	2.7
262,316	3.1	Managers: Emerging Market Debt	-	0.0
248,867	2.9	Managers: Commodities	202,678	2.3
251,471	2.9	Managers: Infrastructure Funds	269,897	3.1
662,255	7.7	Managers: Absolute Return	791,488	9.0
926,087	10.8	Managers: Private Equity	1,098,869	12.5
8,599,284	**100.0**		**8,790,481**	**100.0**
12,302		Outstanding Dividend Entitlement and Recoverable with-holding Tax	11,104	
8,611,586		**Total Investment Assets**	**8,801,585**	

Note P15 – Investment Market Value Movements Analysis

The change in the value of investments during 2011/2012 is set out below:-

	Value at 1 April 2011 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2012 £000
Fixed Interest Securities	152,799	-	-	5,971	158,770
UK Equities	975,369	20,366	(74,445)	(60,115)	861,175
Overseas Equities	1,901,451	53,964	(155,290)	(64,535)	1,735,590
Pooled Investment Vehicles	4,871,019	1,100,500	(774,949)	39,700	5,236,270
Property	571,100	46,694	(8,770)	6,398	615,422
	8,471,738	**1,221,524**	**(1,013,454)**	**(72,581)**	**8,607,227**
Broker Balances	5				248
Outstanding dividend entitlement and recoverable With-holding tax	12,302				11,104
Foreign Currency	28,269				43,709
Cash Deposits	99,272				139,297
Total Investments	**8,611,586**				**8,801,585**

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.

There were 110 late payments amounting to £2.693m of contributions during the year which constituted employer related investments until the amounts were received. Other than this there were no employer related investments.

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 £0.551m (2010-2011: £0.449m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

31 March 2011 £		31 March 2012 £
219,229	Equities - UK Quoted	126,009
229,651	Equities - Overseas Quoted	424,768
448,880	**Total**	**550,777**

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 2010/2011 is set out below:-

	Value at 31 March 2010 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31 March 2011 £000
Fixed Interest Securities	178,360		(30,000)	4,439	152,799
UK Equities	1,114,223	72,012	(195,665)	(15,201)	975,369
Overseas Equities	1,913,439	211,773	(277,202)	53,441	1,901,451
Pooled Investment Vehicles	4,178,795	1,262,224	(716,905)	146,905	4,871,019
Property	433,060	67,339	(25,316)	96,017	571,100
	7,817,877	**1,613,348**	**(1,245,088)**	**285,601**	**8,471,738**
Broker Balances	(31,417)				5
Outstanding dividend entitlement and recoverable With-holding tax	8,386				12,302
Foreign Currency	62,664				28,269
Cash Deposits	115,229				99,272
Total Investments	**7,972,739**				**8,611,586**

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year and unrealised. The change in market of investments shown in the fund account includes an additional £179,274k which represents profit on sale of the Fund's assets.

Net gains and losses on financial instruments

31 March 2011 £000		31 March 2012 £000
	Financial Assets	
285,592	Fair value through profit and loss	(72,581)
285,592	**Total**	**(72,581)**

Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2011			31 March 2012	
Carrying Value £000	Fair Value £000		Carrying Value £000	Fair Value £000
		Financial Assets		
6,730,710	8,467,818	Fair value through profit and loss	7,103,781	8,607,228
98,550	98,550	Loans and receivables	138,748	138,748
6,829,260	**8,566,368**	**Total**	**7,242,529**	**8,745,976**

Valuation of Financial Instruments Carried at Fair Value

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 unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which West Midlands Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. 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 as appropriate.

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 from 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 the fair value is observable.

Values at 31 March 2012	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	4,976,557	1,267,740	2,362,932	8,607,228
Loans and receivables	191,611			191,611
Total Financial assets	**5,168,168**	**1,267,740**	**2,362,932**	**8,798,839**

Values at 31 March 2011	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	5,193,140	1,198,244	2,080,354	8,471,738
Loans and receivables	139,848			139,848
Total Financial assets	**5,332,988**	**1,198,244**	**2,080,354**	**8,611,586**

P16 – Investment Capital Commitments

Investment commitments at the end of the financial year in respect of future payments were:-

31 March 2011 £000		31 March 2012 £000
1,360,514	Non-Equities	1,071,469
256,256	Property	184,470
1,616,770	**Total**	**1,255,939**

These commitments relate to outstanding commitments due on funds held in the private equity, property and infrastructure portfolios.

P17 Current Assets

31 March 2011 £000		31 March 2012 £000
	Debtors and Prepayments	
	Contributions Receivable	
24,820	- Employers	7,558
9,264	- Employees	8,841
-	Wolverhampton City Council	-
42,973	Other Debtors	43,658
77,057	**Total Debtors and Prepayments**	**60,057**
342	Cash	9,986
77,399	**Total Current Assets**	**70,043**

Note:- Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Ltd that the Fund is due to receive a total of £27,677,168. 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 £3,261,152. The balance due included in Other Debtors is £24,909,451.

31 March 2011 £000		31 March 2012 £000
	Analysis of Debtors	
-	Central Government Bodies	-
56,263	Other Local Authorities	49,786
20	Public Corporations	13
20,774	Other Entities and Individuals	10,258
77,057	**Total**	**60,057**

Following a review of debtor and creditor balances central government creditors which were previously netted off against debtors are now shown in creditors, therefore a £7.3m adjustment has been made to the 2011 figures to show the true comparison.

P18 Current Liabilities

31 March 2011 £000		31 March 2012 £000
	Creditors and Receipts In Advance	
(6,981)	Pensions and Lump Sum Benefits	(4,510)
(9,557)	Other Creditors	(8,543)
(337)	Trustee Account	-
(16,875)	**Total**	**(13,053)**

Note:- Following an on-going dispute by the beneficiaries of a pensioner who died in 2008 and on advice from the Chief Legal Officer, the sum due to the beneficiaries of £337,349 was paid into a trustees of the deceased account in 2010/11. The dispute was resolved in 2011/12 and the monies due to the beneficiaries was paid from the account.

31 March 2011 £000		31 March 2012 £000
	Analysis of Creditors	
(7,311)	Central Government Bodies	(3,082)
(2,131)	Other Local Authorities	(1,836)
(7,433)	Other Entities and Individuals	(7,926)
(16,875)	**Total**	**(12,844)**

Following a review of debtor and creditor balances central government creditors which were previously netted off against debtors are now shown in creditors, therefore a £7.3M adjustment has been made to the 2011 figures to show the true comparison.

P19 Additional Voluntary Contributions

The Pension Fund provides for Additional Voluntary Contributions (AVC) for scheme members. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year. These investments are held outside of the Fund. The aggregate amounts of AVC investments are as follows:-

31 March 2011 £000		31 March 2012 £000
3,855	Equitable Life Assurance Society	-
28,144	Prudential	-
31,999	**Total**	**-**

Additional voluntary contributions are not included in the Pension Fund accounts in accordance with regulation 5(2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The 2012 data is currently being prepared and will be inserted ahead of the accounts being audited.

P20 Post Year End Transactions

Pre 1986 Service Adjustment – Note to be inserted

P21 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:

Credit Risk - the possibility that the other parties might fail to pay amounts due to the Authority.

Liquidity Risk - the possibility that the Authority 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.

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 Pension 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 matching assets to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 85% exposure to 'growth' assets, such as equities, property and other alternatives with equity like returns but with less volatility and lower correlation to quoted equities. The remaining 15% being allocated to 'matching' assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years.

Risks in growth 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 'growth' assets would increase the costs of funding. 'Matching' assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk. Emerging Market Debt, although within fixed interest, is not viewed as a 'matching' asset.

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.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by Fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund specific requirements.

Credit Risk

The Fund's deposits with financial institutions as at 31st March 2012 totalled £138.7m in respect of temporary loans and treasury management instruments. 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 31st March 2012 is shown below:

Credit Rating Sensitivity Analysis			
Summary	**Rating**	**Balances as at 31 March 2012 £000**	**Balances as at 31 March 2011 £000**
Money Market Funds			
AIM STIC Global Sterling Portfolio	AAA	13,178	16,029
HSBC Sterling Liquidity Fund	AAA	12,219	19,776
Northern Trust Global Sterling Fund	AAA	1,245	5,245
Short Term Deposits			
Banco Santander	A+	10,000	13,000
Principality Building Society	BBB+	5,000	-
Coventry Building Society	A	5,000	-
West Bromwich Building Society	BBB-	5,000	-
Newcastle Building Society	BB+	1,000	9,000
Bank Deposit Accounts			
Nat West Liquidity Select	A	86,106	35,500
Total		**138,748**	**98,550**

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 cash flow 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 2012, £69.6M of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, Gilts, DBV's and G10 sovereign debt, totalling £74.0M, giving a margin of 6%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stock lending amounted to £1.1M during the year and is detailed in note P13 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation, however there is 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 2012/13 reporting period:

Asset Type	Value as at 31 March 2012 £	Price Risk % Change	Value on Increase £	Value on Decrease £
UK Equities	864,702,970	15.0	994,062,534	735,343,406
Overseas Equities	2,409,036,081	15.9	2,791,831,914	2,026,240,248
Global Equities	484,528,813	13.5	549,794,844	419,262,782
Total Bonds	1,029,967,581	4.4	1,075,698,142	984,237,021
Index Linked	604,618,684	6.7	645,128,136	564,109,232
Cash	193,643,975	0.1	193,818,255	193,469,696
Alternatives	2,362,966,777	5.1	2,482,296,600	2,243,636,955
Property	851,407,144	6.9	910,409,659	792,404,629
Total Assets	**8,800,872,027**		**9,643,040,085**	**7,958,703,969**

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 2012:

Currency	Value as at 31 March 2012 £	% Change	Value on Increase £	Value on Decrease £
Australian Dollar	73,799,925	10.5	81,544,249	66,055,601
Canadian Dollar	55,242,088	9.6	60,560,226	49,923,950
Czech Republic Koruna	2,152,364	11.2	2,392,702	1,912,026
Danish Krone	13,693,760	8.3	14,831,582	12,555,938
EURO	752,806,999	8.4	815,745,139	689,868,859
Hong Kong Dollar	39,541,465	9.6	43,335,552	35,747,378
Hungarian Forint	1,910,798	14.2	2,182,381	1,639,215
Japanese Yen	171,019,295	13.3	193,753,736	148,284,854
Malaysian Ringet	11,923,731	8.3	12,908,624	10,938,838
New Zealand Dollar	18,604	10.8	20,612	16,596
Norwegian Krone	11,255,636	10.5	12,439,652	10,071,620
Polish Zloty	4,141,518	13.4	4,695,736	3,587,300
Singapore Dollar	27,106,552	7.5	29,137,673	25,075,431
South Korean Won	13,752,457	10.3	15,165,134	12,339,780
Swedish Krona	48,258,541	10.2	53,192,314	43,324,768
Swiss Franc	84,101,524	10.2	92,720,577	75,482,471
Taiwan Dollar	21,933,187	9.0	23,900,866	19,965,508
Turkish Lira	5,127,768	9.7	5,627,136	4,628,400
US Dollar	2,243,149,569	9.8	2,461,913,942	2,024,385,196
Global Basket	484,528,813	6.5	516,252,465	452,805,162
Global ex UK Basket	49,109,677	7.1	52,619,999	45,599,355
Europe ex UK Basket	186,593,232	7.8	201,187,921	171,998,543
Asia Pacific Basket	90,862,371	8.8	98,872,707	82,852,035
Asia Pacific ex Japan Basket	83,366,493	7.2	89,357,022	77,375,964
Emerging Basket	556,858,028	7.9	600,794,962	512,921,094
Total	**5,032,254,395**	**9.0**	**5,485,152,908**	**4,579,355,882**

Currency Risk (by asset class)

Asset Type	Value as at 31 March 2012 £	% Change	Value on Increase £	Value on Decrease £
Overseas Equities	2,893,564,892	9.0	3,153,983,212	2,633,146,572
Private Equity	950,476,227	9.0	1,036,018,260	864,934,194
Alternatives	650,784,440	9.0	709,354,473	592,214,407
Property	194,615,023	9.0	212,130,206	177,099,840
Liquid Assets	342,813,813	9.0	373,666,758	311,960,869
Total	**5,032,254,395**	**9.0**	**5,485,152,908**	**4,579,355,882**

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 cash flows 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 2012 and 31 March 2011 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 council 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 180 basis points 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 +/-180 BPS change in interest rates:

As at 31 March 2011 £000	Asset Type	As at 31 March 2012 £000
98,550	Cash & Cash Equivalents	138,748
28,991	Cash Balances	44,257
845,007	Fixed Interest Securities	2,651,099
972,548	**Total**	**2,834,103**

Asset Type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+180BPS	-180BPS
	£000	£000	£000
Cash & Cash Equivalents	138,748	2,497	(2,497)
Cash Balances	44,257	797	(797)
Fixed Interest Securities	2,651,099	47,720	(47,720)
Total change in assets available	**2,834,103**	**51,014**	**(51,014)**

P22 Impairment for Bad and Doubtful Debts

In 2011/12 one admitted body, BXL, went into liquidation with an outstanding liability identified by the actuary of £4,040,836. It is anticipated that the Fund will receive in the order of £300,000 once the liquidation is finalised.

A further admitted body, Adoption Support, terminated their agreement in January 2012 without the necessary funds to meet their outstanding liabilities of £98,200. The Fund has since recovered £30,000 from the remaining assets.

The following write on and write offs of pension payments were reported in this financial year, in line with the Fund's policy:

Write on Analysis		
Individual Value	Number	Total
Less than £50	10	209.52
£50 - £100	5	404.60
£100 - £500	1	119.47
Over £500	-	-
Total	**16**	**733.59**

Write off Analysis		
Individual Value	Number	Total
Less than £50	12	277.03
£50 - £100	78	5,480.54
£100 - £500	74	16,743.74
Over £500	18	17,818.89
Total	**182**	**40,320.20**

P23 Participating Employers of the Fund at 31 March 2012

Scheduled Bodies		
District Councils		
Birmingham City Council	Coventry City Council	Dudley Metropolitan Borough Council
Sandwell Metropolitan Borough Council	Solihull Metropolitan Borough Council	Walsall Metropolitan Borough Council
Wolverhampton City Council		
Major Employers		
Centro	Staffordshire & West Midlands Probation Trust	West Midlands Fire & Civil Defence Authority
West Midlands Police Authority		
Universities (former Polytechnics)		
Birmingham City University	Coventry University	University of Wolverhampton (The)
Colleges of Further Education and Higher Education		
Birmingham Metropolitan College	Bournville College of Further Education	Cadbury Sixth Form College
City College, Birmingham	City College, Coventry	City of Wolverhampton College
Dudley College of Technology	Halesowen College	Henley College
Hereward College	Joseph Chamberlain College	King Edward VI College
Sandwell College	Solihull College	Solihull Sixth Form College
South Birmingham College	Stourbridge College	University College Birmingham
Walsall College	Wolverhampton College	
Schools		
King Edward VI Aston School*	King Edward VI Camp Hill School for Boys*	King Edward VI Camp Hill School for Girls*
King Edward VI Fire Ways School*	King Edward VI Handsworth School*	* Note - became Academies wef 1 August 2011

Scheduled Bodies		
Other Bodies		
Alderbrook School	Arden Academy Trust	ARK Academies
Aston Manor Academy	Balsall Parish Council (no active members)	Barr Beacon School Trust
Bartley Green School	Bickenhill Parish Council (no active members)	Black Country University Technical College
Blue Coat C of E Academy Ltd (The)	Castle Bromwich Parish Council	Central Learning Partnership Trust (Heath Park Academy)
Chelmsley Wood Town Council	City of Wolverhampton Academy Trust	Collegiate Academy Trust (The)
Ctc Kingshurst Academy	Deanery Church of England School	E-ACT Heartlands Academy
E-ACT North Birmingham Academy	E-ACT Shenley Academy	E-ACT Willenhall Academy
Earls High School (The)	Fairfax School (Academy)	Finham Park School Academy
Fordbridge Parish Council	Grace Academy	Hall Green Secondary School
Harborne Academy	Hillcrest School and Sixth Form Centre	High Arcal School Academy Trust
Heart of England School	Holly Hall Academy (The)	Holyhead School
John Henry Newman Catholic College Trust	Joseph Leckie Academy	King Edward VI Sheldon Heath Academy Trust
Kings Norton Girls School and Language College	Kingshurst Parish Council	Kingswinford School and Science College (The)
Langley School	Light Hall School	Lode Heath School
Lordswood Girls School and Sixth Form Centre	Meriden Parish Council	Ninestiles Academy Trust
Oldbury Academy	Ormiston Forge Academy	Ormiston George Salter Academy
Ormiston Sandwell Community Academy	Park Hall Academy	Park Hall Infants Academy
Park Hall Junior Academy	Plantsbrook School	Queen Mary's High School (Walsall)
Q3 Academy	Queen Mary's Grammar School (Walsall)	Rookery School
RSA Academy	Ryder Hayes Academy Trust	Sandwell Academy
Sandwell Homes	Sandwell Leisure Trust	Shelfield Community Academy
Shire Oak Academy Trust	Sidney Stringer Academy Trust	Smiths Wood Parish Council
Solihull Community Housing	St Patricks Church of England Primary Academy	Streetly Academy (The)
Sutton Coldfield Grammar School for Girls Academy Trust	Tile Hill Wood School and Language College	Tudor Grange Academy Solihull Trust

Scheduled Bodies		
Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)	Walsall City Academy Trust Limited	Walsall College Academies Trust (The Mirus Academy)
Westwood Academy (The)	Whitley Academy	Windsor High School and Sixth Form
Wood Green Academy Trust	Woodlands Academy	Wolverhampton Homes

Admitted Bodies		
With Active Members		
ACUA Limited	Age Concern Birmingham	Age Concern Birmingham (VSOP)
Age Concern Wolverhampton	Aston University	BID
Black Country Consortium Ltd	Black Country Museum Trust Limited (The)	Black Country Partnership NHS Foundation Trust
Bloomsbury Local Management Organisation	BME United Ltd	Brownhills Community Association Limited
Bushbury Hill Estate Management Board Limited	Chuckery Tenant Management Organisation Limited	Coventry and Solihull Waste Disposal Company Limited
Coventry Heritage & Arts Trust	Coventry Law Centre	Coventry Sports Trust Limited
CSW Partnership Limited	Delves East Estate Management Limited	Dovecotes TMO
Edith Cadbury Nursery School	Family Care Trust	Friendship Care and Housing Ltd (formerly Beechdale)
Heart of England Care	Home Start – Northfield	Home Start – Stockland Green/Erdington
Home Start – Walsall	Leamore Residents Association Limited	Leisure and Community Partnership Ltd
Lieutenancy Services (West Midlands) Limited	Life Education Centres – West Midlands	Light House Media Centre
Manor Farm Community Association	Marketing Birmingham Limited	Midland Heart Ltd
Milbury Community Services Limited	Millennium Point Trust	Museum of British Road Transport (Coventry) Ltd (The)
Murray Hall Community Trust	New Park Village Tenant Management Organisation	Northern Housing Consortium Limited
Optima Community Association	Palfrey Community Association	Penderels Trust (The)

Admitted Bodies		
Pool Hayes Community Association	Riverside Housing Association Ltd (formerly Riverside Group Limited)	Sandwell Arts Trust
Sandbank Tenant Management Organisation Limited	Sandwell Community Caring Trust	Sickle Cell and Thalassaemia Support Project
Solihull Care Limited	Solihull Care Trust	St Columba's Day Care Centre
Steps to Work (Walsall) Limited	Titan Partnership	University of Warwick
Walsall Housing Group	Watmos Community Homes	West Midlands Transport Information Services Limited
Whitefriars Housing Group	Wildside Activity Centre	Wolverhampton Family Information Service Ltd
Wolverhampton Grammar School	Wolverhampton Network Consortium	Wolverhampton Voluntary Sector Council
Without Active Members		
Adoption Support (terminated 31 March 2011)	All Saints Haque Centre	Aquarius Action Projects
Asian Welfare Centre	Asian Women’s Adhikar Association (AWAAZ)	Belgrade Theatre Trust Limited
Bilston and Ettingshall SureStart	Birmingham and Solihull Connexions Services	Birmingham and Solihull Learning Exchange
Birmingham Heartlands Development Corporation	Black Business in Birmingham	Black Country Connexions
Black Country Museum Development Trust (The)	BXL (Terminated 10 February 2012)	Cannon Hill Trust (now Midlands Arts Council)
Cerebral Palsy Midlands	Community Justice National Training Organisation	Coventry Voluntary Service Council
CV One Limited	Druids Heath TMO	Dudley Zoo Development Trust
East Birmingham Family Service Unit	Heath Town Estate Management Board (terminated 4 August 2008)	Job Change Limited
Metropolitan Authorities Recruitment Agency (METRA)	Moseley and District Churches Housing Association Limited	National Urban Forestry Unit
National Windows (Homes Improvements) Limited	Newman College (terminated 31 March 2008)	Relate
RM Education	Sandwell Regeneration Co. (terminated 31 March 2010)	Select Windows (Homes Improvements) Limited
Serco Limited (Stoke)	Smethwick Asra	Solihull Community Caring Trust

Admitted Bodies		
South Birmingham Family Services Unit	Springfield/Horseshoe Housing Management Co-operative Ltd	St Basil's Centre
Sunderland ARC Limited	Target Excel plc (Walsall MBC)	The Chris Laws Day Care Centre for Older People (terminated 30 November 2010)
TSB Bank plc (formerly Birmingham Municipal Bank)	University of Birmingham (Westhill)	Walsall Enterprise Agency Limited
Walsall Regeneration Company	Wednesbury Action Zone	West Bromwich Afro-Caribbean Resource Centre (terminated 31 October 2008)
West Midlands Councils (formerly West Midlands Leaders Board)	West Midlands (West) Valuation Tribunal	West Midlands Examination Board
West Midlands Local Authorities Employers' Organisation	Wolverhampton Community Safety Partnership (terminated 30 April 2009)	Wolverhampton Development Corporation
Wolverhampton Race Equality Council		

Transferee Admission Bodies (Best Value)		
Agilisys Limited	Alliance in Partnership - Camp Hill	Alliance in Partnership - Ernesford Grange
Alliance in Partnership - President Kennedy	Alliance in Partnership - Stoke Park	Amey Highways Limited
Amey LG Ltd	APCOA Parking (UK) Limited	APCOA Parking (UK) Limited - Solihull
Balfour Beatty Workplace Limited (Birmingham)	Balfour Beatty Workplace Limited (Coventry)	BAM Construct UK Limited
Bespoke Cleaning Services Limited	Bovis Lend Lease Management Services	British Telecom plc
Capita IT Services Ltd	Creative Support Limited	Enterprise Managed Services Ltd - Solihull
Enterprise (AOL) Limited (Shrewsbury)	Enterprise (AOL) Limited (Shropshire)	Enterprise (AOL) Limited (Telford and Wrekin)
Enterprise Managed Services (W-ton)	Galliford (UK) Limited	GF Tomlinson (Birmingham) Limited
Housing 21	Icare GB Limited	Initial Catering Services Ltd (Rowley)
Initial Catering Services Ltd (Smethwick)	Integral UK Limited	KGB Cleaning and Support Services Limited
Lawrence Cleaning Limited	Leisure Living Limited	Mears Group plc
Mears Limited	Mitie PFI Limited	Mouchel Limited
New Heritage Regeneration Limited	NSL Limited	NSL Limited (Solihull)
Pell Frischmann Consultants Limited	Premier Security Services Limited	Quadron Services Limited

Transferee Admission Bodies (Best Value)		
Redcliffe Catering Limited (Bordesley Green Girls School)	Regent Office Care Limited (COWAT)	Regent Office Care Limited (Henley College)
Regent Office Care Limited (Hereward College)	Serco Limited	Serco Limited (Sandwell)
Service Birmingham Ltd	Sodexo Limited	Tarmac Limited
Taylor Shaw Limited (COWAT)	Taylor Shaw Limited (St Albans)	Thomas Vale Construction plc
Willmott Dixon Partnership Ltd (North Contract)	Willmott Dixon Partnership Ltd (South Contract)	
<u>Without Active Members</u>		
Accord Operations (Birmingham)	Alliance in Partnership - Aston	APCOA Parking (UK) Ltd Solihull
AWG Facilities Services Limited	Birmingham Accord Limited	Burrowes Street Tenant Management Organisations Limited
Central Parking Systems	Forest Community Association	Interserve Project Services Limited (Smethwick Campus)
JDM Accord Limited (Shrewsbury & Atcham)	JDM Accord Limited (Shropshire)	JDM Accord Limited (Tamworth)
JDM Accord Limited (Telford & Wrekin)	Kite Food Services Limited	Liberata UK Limited
Methodist Homes for the Aged (terminated 31 March 2010)	Mitie Cleaning (Midlands) Limited - Birmingham City Council	Mitie Managed Services (S&SW) Limited (terminated 31 December 2009)
Mitie Managed Services (S&SW) Limited - Coventry (terminated 31 December 2009)	Mitie Cleaning (Midlands) Limited - Wednesfield	Mitie Property Services (UK) limited
MLA West Midlands (terminated 31 March 2009)	Morrison Facilities Services Limited	Redcliffe Catering Limited (Aston School)
MLA West Midlands (terminated 31 March 2009)	Morrison Facilities Services Limited	Redcliffe Catering Limited (Aston School)
Redcliffe Catering Limited (Camp Hill School)	Regent Office Care Limited	Regent Office Care Limited (City College)
Regent Office Care Limited (Whitefriars)	Research Machines plc	Revenue Management Services
Serco Limited (Stoke)	Service Team Limited	South Warwickshire Tourism Limited
Strand Ltd (terminated 31 July 2009)	Superclean Services	Target Excel Plc (Magistrates Courts)
Target Excel Plc (Solihull MBC)	Technology Innovation Centre (terminated 31 March 2009)	Temple Security Limited
Veolia Environmental Serviced Cleanaway (UK) Limited	Vertex Data Science Limited	Wates Construction Limited (Birmingham)

Transferee Admission Bodies (Best Value)		
West Midlands E-Learning Company		
Other Major Employers who have Participated in the Fund		
Birmingham International Airport Plc	Department of Transport	Department of Health and Social Security
Severn Trent Water Authority	West Midlands Magistrates Courts Committee	

10. ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

1.1. Wolverhampton City 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.

1.2. 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 also 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.

1.3. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Local Code of Corporate Governance is incorporated within Part 5 of the Council's Constitution, which is available for review on the Council's website.

1.4. Copies of the Local Code of Corporate Governance can be obtained from the Monitoring Officer or Section 151 Officer. This statement explains how the Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.

1.5. The authority is also responsible for the strategic management and administration of the West Midlands Authorities Pension Fund with the Council's Chief Executive, Monitoring Officer and Section 151 Officer holding specific responsibilities for supporting the members of the Superannuation Committee in their role.

2. The Purpose of the Governance Framework

2.1. Good governance is about running things properly. It is the means by which a public authority shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing public money is well spent. Without good governance councils will struggle to improve services when they perform poorly.

2.2. The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's and Pension Fund's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3. The governance framework has been in place at Wolverhampton City Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

3. The Governance Framework

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

3.2. The overarching ambitions for the City are contained in the City Strategy which is the master plan for development over the next 25 years. The Council adopted this document in December 2010. The Strategy has also been adopted by the Wolverhampton Partnership which is the City's Local Strategic Partnership (LSP).

3.3. The Council's business priorities are outlined in the corporate plan; it provides the operational focus for services and effectively presents the Council's delivery offer to the Local Strategic Partnership.

3.4. The policy thread is maintained through service plans which connect with corporate priorities and through their translation into individual work plans.

3.5. The authority has pursued arrangements for determining and delivering the key strategic priorities, supported by a number of related measures. These measures are cascaded throughout the authority and are included in service plans which define service and individual objectives and which are subject to on-going review and monitoring.

3.6. The Council's Cabinet (Performance) Panel receives regular reports on delivery and performance. In addition, the Strategic Executive Board also receive performance reports and the Corporate Delivery Board and the Strategic Executive Board now oversee project and programme management in a structured, consistent and comprehensive manner, using an enhanced corporate project and programme management toolkit.

3.7. The Council ensures value for money through the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The Council plans its spending through an established planning cycle for policy development, budget setting and performance management designed to ensure that, as far as possible, resources are aligned to priorities.

3.8. The Council also recognises the challenges and risks in working with over 100 people/organisations with separate, but linked, joint working arrangements, and accepts that improvements in the governance arrangements may be required. It does, however, have extensive experience of partnership working in complex service and project delivery environments.

3.9. The Council has an organisational framework for decision making based on a Cabinet Structure and Scrutiny Panels with an overarching Scrutiny Board. In addition, there are a number of regulatory committees which include Planning Committee and Licensing Committee. There is also an Audit Committee which has specific responsibility for overseeing the Council's corporate governance and risk management arrangements. The Audit Committee works closely with the Council's Standards Committee and there are two joint meetings of the Committees in order to ensure that their roles and responsibilities are co-ordinated.

3.10. The Standards Committee has appointed three Sub-Committees, the Assessment Sub-Committee, the Review Sub-Committee and the Hearings Sub-Committee in order to comply with the legislative requirements which have ensued from the development of the strategic role which has been adopted by the Standards Board for England. A training programme has been adopted in order to ensure that the independent membership have been made aware of their roles and responsibilities. Training has also taken place for all Standards Committee Members. Further training is envisaged for the forthcoming year.

3.11. The Council has adopted a Constitution which sets out how the Council operates, the roles and responsibilities of the various executive, scrutiny and officer functions, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the Council to choose. An officer Constitution Review Group reviews the Constitution on an ongoing basis. Further changes to the Constitution were approved by Council this year and an amended Constitution has been issued. A further detailed review of the Constitution has been undertaken and reported to Council on the 16 May 2012.

3.12. The Constitution establishes a framework incorporating protocols, schemes of delegation and financial frameworks upon which the Council is to operate. The Council requires compliance with these elements of the Constitution in order that established policies, procedures, laws and regulations, including the Council's risk management practice, is adhered to. Amendments have been made to the Members' Code of Conduct where this has been necessitated by law. There has been training in connection with the provisions of the Code of Conduct and further training is anticipated. There is an induction programme in place for both officers and Members and further work will continue in developing training as appropriate to officers and Members according to their specific roles and responsibilities. The Council has a strong Internal Audit function with a close working relationship and established protocols for working with External Audit.

3.13. The Council has implemented a Risk Management Strategy through a process involving Executive Members, the Chief Executive, Strategic Directors, Assistant Directors and representatives from External and Internal Audit and Risk Management and Insurance. The strategy is subject to regular review and risk management arrangements are in place which enables the corporate directors, managers and other senior officers to identify, assess, manage and monitor risks within their own work areas which impact on the ability of the Council and its services to meet objectives. Headline assessments of risk are also included in respective service plans and project plans by Service Managers.

3.14. Arrangements are in place for all new Members to receive an induction which consists of several elements including (but not limited to) an introduction to political and decision-making processes, key developments, standards of ethics and behaviour expected of Members and local government finance. For some panels, Members also receive training in order to meet legislative requirements. Additional support is provided through tailored Member guides, books, CDs or one to one officer support.

3.15. Risk management is an integral part of the Member induction process and a guide has been produced for issue to all Members. Specific training in risk management and corporate governance is also provided to Members of the Audit Committee.

3.16. The Council acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The system includes:

- a robust medium term financial planning process linking budgets to Council priorities;
- comprehensive revenue and capital budgeting systems;
- setting targets to measure financial and other performance;
- the preparation of regular financial monitoring reports which measure actual expenditure and income against forecasts;
- clearly defined expenditure guidelines and formal project management disciplines.

All of the above are subject to continuous monitoring and review and regular financial reports are submitted to Council, Cabinet, Audit Committee and Scrutiny Panels for Member information, review and approval as necessary.

3.17. With regard to the West Midlands Pension Fund, day to day management of the fund is carried out by team of staff who report to a Director of Pensions with support from the Chief Executive, Section 151 Officer and Monitoring Officer.

3.18. The key elements of the Pension Fund internal control environment include:

- Procedures for establishing and monitoring the achievement of the Pension Fund objectives.
- The facilitation of policy making and decision making.
- Ensuring compliance with established policies, procedures, laws and regulations.

- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which the functions of the Pensions Fund are exercised.
- The financial management of the Pensions Fund and the reporting of financial performance.
- The performance management of the Pensions Fund and the reporting of performance management.

4. Review of Effectiveness

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Council's Constitution clearly sets out the responsibilities of Members and senior managers, particularly those of the three statutory posts of the Head of Paid Service, Monitoring Officer and Section 151 Officer. There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) because the Section 151 Officer post is not at the same level in the authority as members of the Corporate Management Team and they do not report directly to the Chief Executive. Alternative arrangements are in place whereby the Section 151 Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.

4.3. The Constitution also sets out the responsibilities of Members and senior managers in relation to operation of the Pension Fund and the Section 151 Officer to the Fund has responsibility to review independently and report regularly to the Superannuation Committee to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it both in respect of the Council and the Pension Fund. The Chief Legal Officer occupies the role of Legal Advisor to the Pension Fund together with external legal support as and when required.

4.4. The Council continually assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and is able to satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Council has an Audit Committee which has clearly defined terms of reference in relation to the Authority's accounting and stewardship functions. The Audit Committee has specific responsibility to oversee the Council's corporate governance arrangements, the work of the Council's internal auditors and the Council's response to external audit and other external inspections that relate to the Committee's work.

The Committee regularly receives Risk and Governance reports on each of the Service Directorate's activities and major Projects within the Council. Two sub committees currently are in place, one to focus on receiving Audit Services' reports on selected financial transaction reviews and current Audit investigations; and the other to review the preparation of the annual financial statements. The delegation of these functions to sub committees has allowed the main Audit Committee to focus on priority strategic and corporate issues.

4.5. The Council operates under a Cabinet structure with Special Advisory Groups and three Cabinet Panels reporting up to the main Cabinet. There are also six Scrutiny Panels who work with a Scrutiny Board.

4.6. Arrangements for the provision of internal audit are contained within the Council's Constitution. The Section 151 Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003 and Amendment Regulations 2006. Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day to day control of the Head of Audit Services who acts independently. Since January 2012 the post holder is also Head of Audit at Sandwell MBC under a joint working arrangement. The Internal Audit Division plans and prioritises its work through a combination of assessment and review of the Council's corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and scheduled visits to Council establishments. The resulting work plan is discussed and agreed with Strategic Directors and Assistant Directors, shared with the Council's external auditor and approved by the Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to Elected Members, Strategic Directors, Assistant Directors, School Heads and Chairs of Governors as appropriate. The review of the effectiveness of the system of internal control is informed by:

- the work of managers within the Council;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter; and
- reports by other independent inspection bodies (Audit Commission, CQC, OFSTED, etc.).

4.7. The Audit Committee has reviewed and updated the Council's fraud related policies, including the Anti-Fraud and Corruption Policy and the Whistleblowing Policy, and copies are published on the Council's intranet and internet sites.

5. Significant Governance Issues

5.1. 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 lessons are learnt and good practice is embedded.

5.2. **Partnership governance** arrangements include responsibility for monitoring performance and managing risk. Improvements are required to the Risk Management arrangements within the major partnerships in order to ensure that the risks associated with joint working are adequately identified and managed by the Council in conjunction with the appropriate partner. A Partnership Protocol has been agreed. Work continues in collating a partnership register and a reporting mechanism whereby the status of partnerships in which the Council is involved at a significant level are monitored. This is to ensure that adequate risk management arrangements are in place.

5.3. The Council still has to implement **Single Status**, a national agreement between the National Joint Council (NJC) for Local Government and Signatory Trades Unions made on 1 April 1997. The Council has a dedicated project team to implement and govern this process. During the year the Cabinet has developed and approved a strategy for addressing the risks relating to historic Equal Pay Claims and has commenced a process of implementing this and also meeting the requirements under the Single Status agreement.

5.4. The Council invited the Information Commissioner's Officer to carry out a consensual audit in order to provide the basis for an improvement plan. Basic frameworks are now in place and additional resources are being targeted at **Information Governance**. However, detailed policies, process and training need to be embedded to reduce the profile of this ongoing governance issue.

5.5. Elections are due in November for **Police and Crime Commissioner**. There are currently many uncertainties around the likely impact on local issues, but there are likely to be significant governance issues around proper scrutiny and appropriate representation on the Police and Crime Panel, as well as ensuring local democratic accountability.

5.6. The Council recognises that there will be significant governance issues arising from **Welfare Reform** and the expected increase in responsibilities and duties. There is a high level of uncertainty as to detail at this time but the Council will undertake a full risk assessment as soon as practicable.

Approval

In approving this statement, the views of all Directors and a number of Senior Managers have been obtained and suitable assurances obtained confirming that this statement is an accurate representation of the current position.

Simon Warren

Chief Executive

Councillor Roger Lawrence

Leader of the Council

Date: ......25 June 2012..

11. 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 Debtors, Creditors

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

Area Based Grant
Is a non-ring fenced general revenue grant, made up of a wide range of former specific grants from seven Government Departments, to support national, regional and local priorities.

Asset
An item that is owned by and can be used by the Council.
See Fixed Asset

11. GLOSSARY

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.

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. Local authorities pass the money to the Government who then share the total amount collected nationally between Authorities to help pay for local services.

Capital Adjustment Account
From 2007/2008 onwards, an account whose purpose is to serve as a balancing mechanism between the different rates at which assets are depreciated in line with the SORP, 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 Programme
The plan of approved spending on fixed assets

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 Long Term Assets less the balances on the Capital Adjustment Account.
See Minimum Revenue Provision

11. GLOSSARY

Capital Receipt
Money received from the disposal of land and other assets, and from the repayment of grants and loans made by the council.

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 on behalf of Central Government.

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 debtors.

Creditors

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, Debtors

Debtors

Sums of money owed to the council but not received at the end of the year.

See Accruals, Creditors

Dedicated Schools Grant

Schools are funded separately from other council services. The council receive 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 Minimis
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

Emoluments
Payments received in cash and benefits for employment.

Estimation Techniques
The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves. Examples include methods of depreciation and the calculation of the allowance for bad debts.

Events after the Balance Sheet Date
Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

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

Fixed 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.

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.

Generally Accepted Accounting Practice (GAAP)
The principles used when preparing financial statements prior to January 2010.
See International Financial Reporting Standards

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.

HRA Subsidy
A funding stream, particular to the HRA, by which government and local authorities with assumed surpluses on their HRA subsidise those local authorities with assumed deficits on their HRA, in accordance with a formula set by government. Those authorities with assumed surpluses are required to pay monies over to the government for redistribution: this is known as "Negative Subsidy".
See Housing Revenue Account

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, Creditors

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 mis-statement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision (MRP)
A minimum amount, set by law, which the council must charge 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. The council collects these rates and pays them into a national pool, which is then re-distributed on the basis of population.

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 Debt
The council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference is made to net funds rather than net debt.

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.

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

Payments in Advance
Payments made in the current financial year for goods and services to be received in the following financial year.

Post Balance Sheet Events
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.

Precept
The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the city 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
Contributions to provisions are amounts charged to the revenue account during the year for costs with uncertain timing where a reliable estimate of the cost involved 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.

Related Party
There is a detailed definition of related parties in FRS8. For the council's purposes, related parties are deemed to include:
(i) the elected members of the council and their partners.
(ii) the chief 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.

Statement of Recommended Practice (SORP)
The set of accounting principles and practices which, prior to 2010, specified the standards to which a local authority's accounts were prepared. Now replaced by the Code of Practice on Local Authority Accounting.
See Code of Practice on Local Authority Accounting

Statement of Standard Accounting Practice (SSAP)
A document issued by the Accounting Standards Board, setting out approved accounting treatments.
See Financial Reporting Standards, Generally Accepted Accounting Practice

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

Tangible Assets
Tangible assets that yield benefits to the local authority and the services it provide for a period of more than one year.

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, all other reserves retained on the balance sheet cannot.

Useful life
The period over which the local authority 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).