Audit Committee
23 September 2013

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

Venue Civic Centre, St Peter's Square, Wolverhampton WV1 1SH

Room Committee Room 3 (3rd floor)

Membership

Chair Cllr Keith Inston (Lab)
Vice-chair Cllr Mrs Wendy Thompson (Con)

Labour	**Conservative**	**Independent members**
Cllr Harbans Bagri	Cllr Matthew Holdcroft	Mr Mike Ager
Cllr Phil Bateman		Mr Terry Day
Cllr Alan Bolshaw		
Cllr Dr Mike Hardacre		
Cllr Jasbir Jaspal		

Information for the Public

If you have any queries about this meeting, please contact the democratic support team:

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Website http://wolverhampton.cmis.uk.com/decisionmaking
Email democratic.support@wolverhampton.gov.uk
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Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

1. **Apologies for absence**

2. **Declarations of interest**

3. **Minutes**
(a) Audit committee – 8 July 2013
[for approval]
(b) Audit (final accounts monitoring and review) sub-committee – 25 July 2013
(for information)
(c) Audit (monitoring of audit investigations) sub-committee – 15 July 2013
(for information)

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

5. **Work programme 2013/14**
[for information]

DECISION ITEMS

6. **FINAL ACCOUNTS/ANNUAL GOVERNANCE STATEMENT:**

a **Audited statement of accounts 2012/13**
[To approve the formal publication of the accounts]

7. **INTERNAL AUDIT REPORTS:**

a **Internal audit charter**
[To approve the charter]

INFORMATION ITEMS

8. **EXTERNAL AUDIT REPORTS AND INSPECTION:**

a **2012/13 Report to those charged with governance**
[To note the report]

b **Medium term financial strategy review – Report of PricewaterhouseCoopers**
[To note the report]

9. **RISK MANAGEMENT – ASSURANCE ON CORPORATE RISKS:**

a **Risk management - Benchmarking**
[To note outcome of participation in the CIPFA risk management benchmarking club]

10. **INTERNAL AUDIT REPORTS:**

a **Internal audit update – Quarter 1**
[To note the content of the internal audit report]

b **Audit services management arrangements update**
[To note the continuing management arrangements and further extension of the service]

c **CIPFA Audit committee update – Issue 11**
[To note the latest CIPFA update]

d **Payment transparency**
[To note continued compliance with the Code of Recommended Practice]

Part 2 – exempt items, closed to the press and public

NIL

Wolverhampton City Council

Audit Committee

Minutes – 8 July 2013

Attendance

Members of the Committee
Cllr Keith Inston (chair)
Cllr Harbans Bagri
Cllr Phil Bateman
Cllr Alan Bolshaw
Cllr Jasbir Jaspal
Cllr Mrs Wendy Thompson

Independent members
Mike Ager
Terry Day

Staff

Michael Webb	Head of Service – Delivery
Peter Farrow	Head of Audit
David Johnston	Head of Risk Management and Insurance
Richard Morgan	Senior Audit Manager
Claire Nye	Finance Manager-Delivery
Martin Fox	Democratic Support Officer

External Auditors

Richard Bacon	PricewaterhouseCoopers
Jonathan Sawyer	PricewaterhouseCoopers

Apologies

Apologies for absence were received from Cllrs Mike Hardacre and Matthew Holdcroft

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Part 1 – items open to the press and public

Item No.	*Title*	*Action*
	MEETING BUSINESS ITEMS	
-	**Welcome to new members** The Chair welcomed the newly appointed members, namely Cllrs Harbans Bagri, Phil Bateman and Alan Bolshaw to the meeting, together with the new independent members, Mike Ager and Terry Day and introductions were exchanged.	

2.	**Declarations of interest** Mike Ager declared a non-pecuniary interest in agenda item 11a – Coprorate risk register update as a Governor of Coppice Performing Arts School.	Martin Fox
3.	**Minutes** Resolved: **(a) Audit committee – 15 April 2013** That the minutes of the meeting held on 15 April 2013 be approved as a correct record and signed by the Chair. **(b) Audit (Final Accounts Monitoring and Review) Sub-committee – 22 April 2013** Resolved: That the minutes of the meeting held on 22 April 2013 be noted. **(c) Audit (Monitoring of Audit Investigations) Sub-committee – 29 April 2013** Resolved: That the minutes of the meeting held on 29 April 2013 be noted.	Martin Fox
4.	**Matters arising** There were no matters arising.	
5.	**Dates of meetings 2013/14** That it be noted that meetings of the committee are scheduled to be held on the following dates commencing at 2.00 pm:- 23 September 2013 16 December 2013 10 March 2014 14 April 2014.	
6.	**Work programme 2013/14** Resolved: That the work programme be received.	

DECISION ITEMS

7.	**INTERNAL AUDIT REPORTS:**	
a	**Annual review of effectiveness of internal audit** A report was submitted which asked the Committee to approve the annual review of the effectiveness of internal audit in order to discharge its' responsibility under regulation 6 of the Accounts and Audit Regulations 2011.	Mark Taylor/ Peter Farrow

Resolved:
That the annual review of the effectiveness of internal audit be approved.

8. **OTHER GOVERNANCE REPORTS:**

a	**Audit committee – annual report** This report was submitted to summarise the work undertaken by the Audit Committee during the municipal year 2012/13. Resolved: That the Audit Committee Annual Report be endorsed and referred to Full Council for approval.	Peter Farrow/ Martyn Sargeant

INFORMATION ITEMS

9. **FINAL ACCOUNTS/ANNUAL GOVERNANCE STATEMENT:**

a	**Draft statement of accounts 2012/13** The draft Statement of Accounts for 2012/2013 was submitted for information. Cllr Mrs Thompson asked for more information about the net pensions liability (page 9) and Cllr Bateman asked how this was being monitored by the Authority. Offices responded that the final figures would be reported to the Pensions Committee. Cllr Mrs Thompson also called for more information about the budget for learning disability services (page 37), namely the budgeted figure and the figure for 2013/14, the number of service users and a breakdown of the total expenditure of £26.4m. She also requested further information about the section within the statement relating to exit packages (page 42). Resolved: (a) That it be noted that the Assistant Director Finance approved the Draft Statement of Accounts 2012/2013 and 26 June 2013, as required by the Accounts and Audit Regulations. (b) That it be noted that the 2012/2013 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. (c) That it be noted that formal publication of the 2012/2013 Statement of Accounts is required by 30 September 2013, in accordance with the Accounts and Audit Regulations 2011. (d) That it be noted that the Statement of Accounts incorporates a signed copy of the Annual Governance Statement as required by the Accounts and Audit Regulations 2011.	Mark Taylor

(e) That a further report be submitted to the committee regarding the net pensions liability, the budget for learning disability services and exit packages.

b	**Annual governance statement 2012/13** This report asked the committee to note the content of the Annual Governance Statement which is to be signed by the Chief Executive and the Leader of the Council. Cllr Mrs Thompson expressed concern about the delay in progressing issues such as partnership governance and information governance and looked forward to receiving early progress reports. The Head of Audit Services responded that a new structure was being put in place in order to take these issues forward. Resolved: That the Annual Governance Statement for 2012/13 be noted.	Keith Ireland/ Mark Taylor/ David Johnston /Peter Farrow
10.	**EXTERNAL AUDIT REPORTS AND INSPECTION:**	
a	**External audit update report 2012/13** PricewaterhouseCoopers presented their update on progress in delivering their audit plan, their view of progress of the closedown process, the results of their review of the work of internal audit and detail about some recent publications from PwC's Public Sector Research Centre. Resolved: That the report be received.	Mark Taylor
11.	**RISK MANAGEMENT – ASSURANCE ON CORPORATE RISKS:**	
a	**Corporate risk register - update** This report provided the Committee with the current list of corporate risks and the actions being taken to manage the risks. Responding to a question from Cllr Mrs Thompson about demographic pressures, the Head of Risk Management and Insurance indicated that the original risks related to looked after children but had been extended to include the learning disabilities group. He added that the register was due for a complete revision. Cllr Mrs Thompson also asked why equal pay and single status had been grouped together and was advised that these would be separated out in future. Cllr Mrs Thompson requested regular updates regarding the equal pay situation. Resolved: That the list of corporate risks and the actions being taken to manage them be noted.	David Johnston

12. **INTERNAL AUDIT REPORTS:**

a	**Annual internal audit report 2012/13** The Head of Audit Services submitted the Annual Internal Audit Report for 2012/13. Cllr Mrs Thompson indicated that she would welcome further reports on a number of the issues listed in section 4 of the report, such as Pension Auto-Enrolment. Responding to questions from Cllr Bateman, The Head of Audit Services indicated that numbers of duplicate payments of reducing and that cases of fraud resulted in sanctions for legal action. Cllr Bateman also suggested that the achievements of internal audit should be publicised by the press That the Annual Internal Audit Report for 2012/13 be noted that the thanks of the Committee to the staff of internal audit for the work represented by the report be placed on record.	Peter Farrow/ Richard Morgan
b	**CIPFA Audit committee update** A copy of the latest update by the Chartered Institute of Public Finance and Accountancy was submitted for information. Resolved: That the latest CIPFA Audit Committee update - Issue 10, be noted.	Peter Farrow/ Richard Morgan
c	**Payment transparency** The Head of Audit Services submitted the latest review of the Council's compliance with the Code of Recommended Practice issued by the Secretary Of State for Communities and Local Government and associated guidance. Resolved: That the Council's continued compliance with the Code of Recommended Practice regarding the publication of all payments over £500, together with the action now taken to publish all payment data with effect from 1 April 2013, be noted.	Peter Farrow/ Richard Morgan

Audit (Final Accounts Monitoring and Review) Sub-committee
Minutes – 25 July 2013

Attendance

Members of the Sub-committee
Cllr Keith Inston (chair)
Cllr Phil Bateman
Cllr Wendy Thompson

Staff

David Kane	Head of Finance-Corporate Services
Martin Fox	Democratic Support Officer

Apologies
Apologies for absence were received from Cllr Matthew Holdcroft and Terry Day (Independent member)

Part 1 – items open to the press and public

Item No.	*Title*	*Action*
	MEETING BUSINESS ITEMS	
2.	**Declarations of interest** No interests were declared.	
3.	**Minutes of the previous meeting (22 April 2013)** Resolved: That the minutes of the meeting held on 22 April 2013 be approved as a correct record and signed by the Chair.	Martin Fox
4.	**Matters arising** There were no matters arising.	

5. **Dates of meetings 2013/14**

Resolved:

That it be noted that meetings of the Sub-committee will take place on the following dates at 2.00pm:

16 September 2013

9 December 2013

24 February 2014

7 April 2014

DECISION ITEMS

6. **Budget risks update and review** Mark Taylor/ David Kane

The Head of Finance-Corporate Services submitted a report which detailed the risks and risk management arrangements relating to the Council's budget and finances and which asked the Sub-committee to agree to receive further updates in accordance with the agreed work programme.

Cllr Mrs Thompson raised a question about the transformation programme, noting the risks that might materialise as a result of not identifying savings or delivering the savings incorporated within the budget, but suggesting that the Council should be able to control the situation. The Head of Finance responded that this programme included risks which are not part of the Futureworks programme. It was noted that other measures have been put in place to try and reduce the demand on services for older people and in relation to looked after children and that the Assistant Director-Finance is working closely with the Community Directorate to resolve the issues.

Responding to a question about service level agreements in schools and a budget overspend, the Head of Finance indicated that Internal Audit will be carrying out a review of the arrangements and that an external adviser will also be carrying out a forensic review in view of the overspend in this area. He undertook to obtain further information for the Sub-committee about the appointment of the external adviser once available.

Cllr Mrs Thompson asked whether there were any other risks which had not been identified and the Head of Finance clarified that the main risks are reductions in grant funding, demand for services in children and adults' social care and equal pay issues. Cllr Bateman referred to the need for extremely careful monitoring of the situation as a whole and the Head of Finance commented on the challenging nature of the financial situation currently faced by the Council.

Resolved:

That the risks and risk management arrangements relating to the Council's budget and finances be noted and that further updates be submitted in accordance with the agreed work programme

Audit (Monitoring of Audit Investigations) Sub-committee

Minutes – 15 July 2013

Attendance

Members of the Sub-committee
Cllr Wendy Thompson (chair)
Cllr Mike Hardacre
Cllr Matthew Holdcroft
Cllr Keith Inston

Independent members
Mike Ager

Staff

Peter Farrow	Head of Audit
Anthony Ivko	Assistant Director - Community
Simon Lunn	Head of Operational Finance
Richard Morgan	Senior Audit Manager
Mark Wilkes	Principal Auditor
Martin Fox	Democratic Support Officer

Apologies

No apologies for absence were received.

Part 1 – items open to the press and public

Item No.	*Title*	*Action*
	MEETING BUSINESS ITEMS	
2.	**Declarations of interest** No declarations were received.	
3.	**Minutes of the previous meeting (29 April 2013)** Resolved: That the minutes of the meeting held on 29 April 2013 be approved as a correct record and signed by the Chair.	Martin Fox

4. **Matters arising**
There were no matters arising.

5. **Dates of Meetings 2013/2014**
Resolved:
That it be noted that meetings of the Sub-committee will be held on the following dates commencing at 2.00pm:
21 October 2013
20 January 2014
28 April 2014

EXCLUSION OF PRESS AND PUBLIC

6. **Exclusion of press and public**
Resolved:
That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item(s) of business as they involve the likely disclosure of exempt information falling within the paragraphs of Schedule 12A of the Act set out below:

Item No.	*Title*	*Applicable paragraph*
7	Audit services – Counter fraud report July 2013	3
8	Audit update	1,2,3

Part 2 – exempt items, closed to the press and public

7. **Audit services – Counter fraud report July 2013**
Mark Wilkes presented a report which updated the Sub-committee on the current counter fraud activities undertaken by the counter fraud unit within Audit Services. He responded to questions from Cllr Hardacre and Mike Ager about methods of working with Wolverhampton Homes regarding fraud activities and reporting back mechanisms. Cllr Hardacre also asked whether the School Improvement Service within the Education and Enterprise Directorate is being monitored in terms of procurement processes and it was noted that many staff had attended the recent fraud awareness seminars. Peter Farrow undertook to check which employees had attended the sessions and to pass on a recommendation from the Sub-committee about the importance of attendance at the training sessions.

Peter Farrow/ Richard Morgan/ Mark Wilkes

Resolved:

> That the current position with regard to the Council's counter fraud activities be noted and that employees be encouraged to attend future fraud awareness seminars, with further feedback being reported to the Sub-committee in due course.

8. **Audit update** — Peter Farrow/ Richard Morgan/ Mark Wilkes

Mark Wilkes presented a report on current audit investigations. Anthony Ivko gave an update on case ref WPP 101 (disabled facilities grant) and undertook to provide further updates as appropriate. Concern was also expressed about case ref IL17W (BSF public arts works) and a further report was requested concerning the investigation. Cllr Inston asked whether grants to other schools had been investigated as a result of case ref IL18I (extended schools) and it was suggested that disciplinary action was necessary in this case. Peter Farrow suggested that a representative of the Schools' Audit Team be requested to attend the next meeting to report on their activities within schools.

Resolved:

> That the current position with regard to audit investigations be noted that arrangements be made for a representative of the Schools' Audit Team to attend the next meeting to report on their activities within schools.

AGENDA ITEM **5**

Audit Committee Work Programme 2013/14

The Governance & Assurance Framework

- Corporate **Objectives**
- Corporate (Strategic) **Risks**
- **Controls** to Mitigate the Risks
- Sources of **Assurance**
- Identifying and addressing the **Gaps**

The Assurance Framework Life Cycle

Identification of	Corporate **Objectives**	the Corporate Plan
Assessment of	Corporate (Strategic) **Risks**	Risk Workshops
Identification of	Key **Controls**	Risk Management Plans
Identification of	Sources of **Assurance**	Service Plans, Project Plans, Corporate Policies, External Reviews
Analysis of	**Assurance** on Key Controls	Risk Management & Insurance Corporate Risk Management Group Internal and External Audit
Reports to **Audit Committee** on	**Assurance** on Key Controls **Gaps** in Key Controls **Gaps** in Sources of Assurance	Risk Management & Insurance Corporate Risk Management Group Internal and External Audit

Response **Action Plans** Directors, Management Teams, Project Teams

Audit Committee Work Programme 2013/14

Committee Meeting Date All at 2.00pm	Final Accounts / Annual Governance Statement	Internal Audit Reports *	Risk Management – Assurance on Corporate Risks	Risk Management – Assurance on Service Risks Note 1	External Audit Reports and Inspection	Other Governance Issues
8 July 2013	2012/13 Annual Governance Statement 2012/13 Draft Statement of Accounts	Annual Internal Audit Report 2012/13 Annual Review of Effectiveness of Internal Audit CIPFA Audit Committee Update Payment Transparency	Corporate Risk Register		External Audit Update Report	Sub-Committees: Minutes and Matters Arising Audit Committee – Annual Report
23 September 2013	2012/13 Audited Statement of Accounts	Internal Audit Update Payment Transparency Internal Audit Management Arrangements Update Internal Audit Charter CIPFA Audit Committee Update	Risk Management Benchmarking		Annual Report to those charged with Governance (ISA 260) Medium Term Financial Strategy Review	Sub-Committees: Minutes and Matters Arising

Committee Meeting Date All at 2.00pm	Final Accounts / Annual Governance Statement	Internal Audit Reports *	Risk Management – Assurance on Corporate Risks	Risk Management – Assurance on Service Risks Note 1	External Audit Reports and Inspection	Other Governance Issues
16 December 2013		Internal Audit Update Payment Transparency Review of Fraud Related Policies	Corporate Risk Register		Annual Audit Letter	Sub-Committees: Minutes and Matters Arising Audit Committee Self-Assessment Workshop Benefits Fraud Sanctions Report 2012/13
10 March 2014	Annual Governance Statement – Significant Governance Issues	Internal Audit Update Strategy for Internal Audit 2014/15 – 2016/17 Payment Transparency	Risk Management Policy and Strategy Corporate Risk Register	Delivery Directorate	External Audit Plan 13/14	Sub-Committees: Minutes and Matters Arising Audit Committee Terms of Reference Review
14 April 2014			Corporate Risk Register	Community Directorate Education and Enterprise Directorate	Annual Grants Certification Report	

Also, to include:

- As and when issued, CIPFA's Audit Committee Technical Updates will be brought before the Committee
- Audit fee letter – once further guidance issued as to when and where this should be presented

Note 1: Risk Management / Corporate Risks Reports
An annual cycle of reports from:
- Chief Executive
- Strategic Director for Delivery
- Strategic Director for Community
- Strategic Director for Education and Enterprise

These reports should provide Audit Committee with assurance of that adequate governance and risk management arrangements are in place within each service group. They will focus on the ongoing operational activities of the service group rather than major projects which are picked up in the reports on Major Projects/Partnerships in the workplan. Key questions which may inform the report to Audit Committee include:

- What are the key statutory functions the service group is required to deliver?
- What are the key strategic objectives that the service group is responsible for delivering?
- What arrangements are in place to ensure these key statutory functions and strategic objectives are properly delivered?
- What are the main 'red risks' that the service group has to manage on an ongoing basis and how are these risks managed?
- What external assurance is available eg external inspection reports. How have significant issues identified in such reports been addressed?
- What significant problems have occurred in the past year and what arrangements have been made to avoid such problems going forward?

Assurance gained on the corporate governance arrangements in place within the service groups will inform the Annual Governance Statement.

Final Accounts Monitoring & Review Sub-Committee
Work Programme 2013/14

Sub-Committee Meeting Date All at 2.00pm	Final Accounts / Annual Governance Statement	Revenue Budget & Capital Programme	Other Finance Matters
22 July 2013		Revenue Budget Outturn 2012/13 Capital Budget Outturn 2012/13 (incl Q1) Reserves, Provisions and Balances 2012/13 Quarter 1 Revenue Budget Monitoring 2013/14 2014/15 Draft Budget Strategy & Medium Term Financial Strategy	Treasury Management Annual Report 2012/13 Quarter 1 – Treasury Management 2013/14 Monitoring
16 September 2013	Update on External Audit of Statement of Accounts		
9 December 2013		Quarter 2 – Revenue Budget Monitoring Quarter 2 – Capital Budget Monitoring 2014/15 Draft Budget Strategy & Medium Term Financial Strategy	Quarter 2 – Treasury Management 2013/14 Monitoring
24 February 2014		Quarter 3 – Revenue Budget Monitoring Quarter 3 – Capital Budget Monitoring 2014/15 Budget Strategy & Medium Term Financial Strategy – Update	Quarter 3 - Treasury Management 2013/14 Monitoring

7 April 2014	2013/2014 Statement of Accounts Progress update		

Monitoring of Audit Investigations
Sub-Committee Work Programme 2013/14

Sub-Committee Meeting Date All at 2pm	Monitoring of Audit Investigations: to include details of completed investigations, implementation of recommendations, fraud risk register, pro-active testing, NFI updates, raising fraud awareness events, benchmarking and other fraud related activities
15 July 2013	Counter Fraud Report Audit Issues Update
21 October 2013	Counter Fraud Report Audit Issues Update
20 January 2014	Counter Fraud Report Audit Issues Update
28 April 2014	Counter Fraud Report Audit Issues Update

Audit Committee Member Training Programme 2013/14

Date	Training Event
24 June 2013	• Raising Fraud Awareness • The Statement of Accounts

Agenda Item No: **6a**

Audit Committee

23 September 2013

Report Title	**Audited Statement of Accounts 2012/2013**
Classification	Public
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources
Accountable Strategic Director	Keith Ireland, Delivery
Originating service	Delivery
Accountable officer(s)	Mark Taylor — Assistant Director - Finance Tel — 6609 Email — Mark.Taylor@wolverhampton.gov.uk

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the formal publication of the 2012/13 Statement of Accounts, as required by the Accounts and Audit Regulations 2011, which require publication by 30 September.
2. Delegate authority to the chair of the audit committee to agree subsequent changes to the Statement of Accounts in consultation with the Assistant Director - Finance

Recommendations for noting:

The Committee is asked to note:

1. That the council's external auditors are nearing completion of their audit of the 2012/13 Draft Statement of Accounts, and intend to issue an unqualified opinion, subject to final review of the amended Accounts and a small number of other matters.

2. That the external auditors have identified no material errors which are expected to remain unadjusted in the amended Statement of Accounts.

1.0 Purpose

1.1 To update members of the committee on the audit of the 2012/13 Statement of Accounts.

2.0 Background

2.1 The draft Statement of Accounts was certified by the Assistant Director – Finance on 26 June 2013, ahead of the statutory deadline of 30 June. It was subsequently presented to the Audit Committee on 8 July 2013.

2.2 The draft was subject to audit by the council's external auditors, PwC, which has been taking place during the last three months, and is now nearing completion. The council is required by law to publish the Statement of Accounts by 30 September 2013 (Accounts and Audit Regulations 2011).

2.3 Under the council's financial procedure rules, the Audit Committee has responsibility for the approval of the financial statements.

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). 2012/13 is the third year that the council has prepared accounts in accordance with International Financial Reporting Standards (IFRS). There were no major changes to the Code for 2012/13.

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 2012/13**: 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 PwC, and give their opinion on whether the council's financial statements give a true and fair view of 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 not 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 Amended 2012/13 Statement of Accounts

4.1 The net cost of providing services, according to the Comprehensive Income and Expenditure Statement, was a deficit of £88.0 million. This compares to a surplus of £4.2 million for 2011/12. 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 2012/13 they amounted to a net loss of £110.7 million, while in 2011/12 they caused a net loss of £72.0 million. 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 £348.0 million from £583.1 million. The major reasons for this decrease are set out below:

	Comments	Change (£000)
Increases in Net Worth Fixed Assets	Expenditure on capital programme	147,200
Decreases in Net Worth Fixed Assets	Depreciation and Impairment Charges for the Year (*)	(139,200)
Pension Liability	Due to changes in Actuarial assumptions and calculations (*)	(118,100)
Fixed Assets	Downwards revaluation of fixed assets(*)	(112,500)
Non-current borrowing	Increase in non-current borrowing	(11,400)

(*) 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 £224.9 million. This is made up of a decrease of £28.4 million on usable reserves, and a decrease of £196.5 million on unusable reserves (unusable reserves are accounting technicalities, usually reflecting statutory adjustments). This compares to a net decrease of £53.4 million in 2011/12 (£5.6 million increase in usable reserves; £59 million 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 2012/13: these were a decrease of £3.6 million and a decrease of £5.5M respectively. The General Fund Balance stands at £15.9 million at 31 March 2013, and the HRA balance at £5.0 million.

4.6 The HRA Income and Expenditure Account shows a surplus of £22.6 million for the year compared to 2011/12's surplus of £13.5 million. 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 decrease of £5.5 million (2011/12: an increase of £5.4 million).

4.7 The HRA reserve stands at £5.0 million at 31 March 2013. 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 £0.6 million. This will be distributed between the three precepting authorities in 2012/13, with the council being responsible for approximately 90% of this sum.

5 Outcomes of the Audit

5.1 The key outcomes of the audit of the Statement of Accounts are:
- (i) PwC's opinion as to whether the statements give a true and fair view of the council and its group's financial position at the year end, and the income, expenditure and cash flows for the year there ended;
- (ii) PwC's conclusion on the council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year in question;
- (iii) A report which summarises the issues arising from the audit of the statements, including the pension fund accounts, and issues which they are formally required to report to Members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance". This report is presented under item of the agenda.

5.2 The committee can draw assurance from PwC's intention to issue an unqualified opinion on the financial statements, subject to the outcomes of the remaining elements of audit work. This will be included in the published Statement of Accounts.

5.3 As a result of their work on the draft Statement of Accounts, PwC have recommended that some changes be made to the content of the accounts. It is normal for there to be a small number of changes each year, as more up-to-date information becomes available during the course of the audit. In addition to a number of minor changes and additions, adjustments have been made in respect of the following item:

Academy Schools – PwC have challenged the council's policy of reflecting the fixed asset implications of schools converging to academy status at the point of conversion, rather than the point at which conversion becomes reasonably certain. As a result, the council has reviewed its accounting policy and derecognised a number of assets, and made prior period adjustments to reflect other derecognitions occurring in earlier years.

Land valuations – In respect of some land valuations, it was identified that the underlying data concerning land areas was out of date. There was an issue where the incorrect land areas were used to carry out valuations for some specific assets. This required an adjustment to the values of the affected assets, which has now been reflected in the accounts.

Birmingham International Airport Shareholding – since the preparation of the draft accounts, an updated valuation of the council's equity holding in Birmingham International Airport has become available. This valuation has increased the value of the council's ordinary shares by £300,000 to £18.9 million. It was decided by West Midlands councils with a shareholding not to reflect this increase in value in their accounts due to its small size. It is important to note that this change in valuation method has no impact on the resources available to the council to fund future expenditure.

Highfields School PFI – It was identified that £4.3 million of start up costs for the project have been capitalised during 2012/13. PwC and the council are investigating this capitalisation to ensure that only appropriate costs were capitalised. The conclusion of this work may require an adjustment to the accounts to reflect a lower level of capitalisation of start up costs.

5.4 It is crucial to note that none of the changes made as a result of the audit have affected the revenue or capital outturn positions for 2012/13, or the level of reserves available for future expenditure at 31 March 2013.

5.5 At the time of preparing this report, PwC are performing their final checks on the revised Statement of Accounts. Any further developments prior to this meeting will be the subject of a verbal update. If there are any further changes to the statements, a revised version will be presented.

5.6 Following approval by Audit Committee, a copy of the finalised Statement of Accounts will be published in line with the statutory deadline of 30 September 2013.

6.0 Financial implications

6.1 The financial implications are discussed in the body of the report.

[CF/17092013/H]

7.0 Legal implications

7.1 The Accounts and Audit Regulations require the 2012/2013 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 certified by the Section 151 Officer by 30 June 2013 and published by 30 September 2013.

[JH/16092013/B]

8.0 Equalities implications

8.1 There are no equality implications arising from this report.

9.0 Environmental implications

9.1 There are no environmental implications arising from this report.

10.0 Schedule of background papers

Draft Statement of Accounts 2012/13, report to Audit Committee, 08 July 2013

2012/13 Statement of Accounts Progress Update, report to Audit (Final Accounts Monitoring and Review) Sub Committee, 22 April 2013

WOLVERHAMPTON CITY COUNCIL

STATEMENT OF ACCOUNTS

2012/2013

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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 2012/2013, and a summary of changes to accounting policies, of which there have been none this year, 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 2013/2014 and forecasts through to 2017/2018.

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 2012/2013 – this note provides more information on the council's financial performance for 2012/2013. 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 – Current Receivables and Payables – this note summarises how much money was owed to the council at the end of the year, and how much the council owed other 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 Other 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.

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 Limited), 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 2012/2013

Outturn 2012/2013

General Fund

2012/2013 was a very challenging year for the council's General Fund, with savings targets of £21.1M included in the approved budget. The council was able to achieve the majority of this challenging savings target, with its outturn position for the year being a deficit of £3.6M. When net transfers to/from earmarked reserves are taken into account, total usable General Fund reserves fell from £103.1M to £77.0M. The following table analyses the outturn for 2012/2013, compared to budget, by directorate. It should be noted that the figures used in this table include certain accounting charges, such as impairment of non-current assets, which are reversed under statutory provisions and are therefore not budgeted for: these can give rise to significant variations for this reason alone.

Service	2012/2013 Net Budget £000	2012/2013 Net Outturn £000	Total Variation Over/(Under) £000
Community	142,287	143,401	1,114
Delivery	39,131	38,914	(217)
Education and Enterprise	50,195	133,719	83,524
Office of the Chief Executive	2,790	2,697	(93)
Corporate Budgets	374	(82,870)	(83,244)
Budget Requirement	**234,777**	**235,861**	**1,084**
Funding:			
Formula Grant	(136,807)	(134,206)	2,601
Council Tax	(94,314)	(94,314)	-
Other General Government Grants	(2,700)	(3,729)	(1,029)
Use of Reserves	(956)	(3,612)	(2,656)
Total Funding	**(234,777)**	**(235,861)**	**(1,084)**
Budget (Surplus)/Deficit	**-**	**-**	**-**

2. FINANCIAL PERFORMANCE 2012/2013

Housing Revenue Account

2012/2013 was the first year of the new HRA self-financing regime, under which the council does not have to pay housing subsidy to the Government, and has discretion over the use of any operating surpluses. The outturn position for the year was an operating surplus of £8.8M, compared to a budgeted surplus of £5.5M. Of this £5.5M, £4.7M had originally been earmarked for debt redemption, however in the event the council was able to use £14.3M on making provision for the redemption of debt. This has the major advantage of creating additional 'headroom' under the HRA borrowing limit as set by law, which will enable the council to pay for additional investment in its houses in the future.

The operating surplus was generated primarily by savings on interest payable and receivable. This was due to the council's treasury management policy of using internally-generated cash balances ahead of external borrowing wherever possible. Smaller savings were also achieved on rent and service charge income, due to right-to-buy sales being slightly lower than forecast at the time of setting the budget, and on management and maintenance expenditure.

	Budget 2012/2013 £000	Outturn 2012/2013 £000	Variance 2012/2013 £000
Income	(89,072)	(89,584)	(512)
Expenditure	66,938	66,716	(222)
Net Cost of Services	**(22,134)**	**(22,868)**	**(734)**
Net Cost of Borrowing and Investments	16,619	14,071	(2,548)
Surplus for the Year	**(5,515)**	**(8,797)**	**(3,282)**
Allocation of Surplus for the Year			
Provision for Redemption of Debt	4,735	14,250	9,515
Transfer to/(from) Reserves	780	(5,453)	(6,233)
Total	**5,515**	**8,797**	**3,282**

2. FINANCIAL PERFORMANCE 2012/2013

Capital Programme

Capital expenditure by the council during 2012/2013 totalled £188.931M, as set out in the following table.

Expenditure	Approved Budget £000	Outturn £000	Variation Over/(Under) £000
General Fund			
Private Sector Housing	4,059	2,792	(1,267)
Delivery	4,595	2,895	(1,700)
Community	4,322	1,860	(2,462)
Education and Enterprise	127,977	111,949	(16,028)
	140,953	**119,496**	**(21,457)**
Housing Revenue Account	47,978	41,424	(6,554)
Total Expenditure	**188,931**	**160,920**	**(28,011)**

Significant Changes in Accounting Policies

There have been no significant changes in accounting policies for 2012/2013.

2. FINANCIAL PERFORMANCE 2012/2013

Items of Interest in the Accounts

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

Provisions and Contingent Liabilities

The council's total level of provisions decreased by £3.6M (net) over the course of the year. This was almost entirely due to the use of £3.5M of the Capitalisation Risks provision. Total provisions at 31 March 2013 stood at £30.6M: further details are provided at Note 4A to the Financial Statements.

Capital Expenditure

The council once again successfully managed a large capital expenditure programme in 2012/13, resulting in additions to non-current assets of £147.2M, along with other capital expenditure of £38.1M. The main additions were on council dwellings (£41.4M), mostly due to spend under the council's Decent Homes programme, and other land and buildings (£96.5M), which reflects a number of major investments including Building Schools for the Future, and the i54 development. 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 pensions 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 £108.3M during 2012/13, made up of a growth of £181.4M in liabilities, offset by a growth of £72.9M in assets. The main reasons for the net movement were losses of £101.9M resulting from changes in actuarial assumptions, net interest payable of £13.8M, and other net income of £7.4M. 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.

New PFI Scheme

In 2012/2013, the council recognised a new asset of property, plant and equipment, being the Highfields and Penn Fields School. This school has been built, and will be managed, under a PFI contract. The construction of the new building cost £47.8M, and the total amount payable by the council over the life of the contract is estimated to be £196.8M. Further details can be found in Note 7B to the Financial Statements.

Borrowing Facilities and Capital Borrowing

The council borrows to part-fund its capital expenditure programme. As a local authority, the council can borrow funds from the Public Works Loan Board (UK Debt Management Office), which allows the council to benefit from the relatively low cost of Government borrowing. At 31 March 2013, its total borrowing portfolio stood at £519.0M, of which £415.2M is owed to the Public Works Loan Board and £103.8M to private sector lenders. The council's borrowing activities are governed by the Prudential Code for Capital Finance in Local Authorities (CIPFA).

Revaluation of Property, Plant and Equipment

The council values its property, plant and equipment on a rolling five-year cycle. During 2012/13, assets with a combined value of £481.9M (post 2012/13 depreciation) became due for revaluation. The impact of this exercise was a net impairment of £67.9M. Statutory provisions require the council to transfer an equivalent amount from its Capital Adjustment Account to its revenue accounts, meaning that there is no impact of this impairment on council tax or housing rents.

3. THE MEDIUM TERM FINANCIAL STRATEGY

General Fund

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

Economic Conditions

The UK economy, along with the US and other major EU economies, has generally been performing weakly since the 'credit crunch' crisis of 2007/08, following several years of consistently high economic performance since the mid-1990s. Price inflation in the UK has also generally been high during the last few years. The main impacts of these economic conditions on the council have included:

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

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

Government Spending Cuts and Controls

Since the economic downturn took hold, it has been a national Government priority to reduce public sector borrowing and the public sector budget deficit. This has meant reductions in funding for local government which would have been inconceivable just a few years ago.

Wolverhampton will see a reduction in general Government grants of 7.1% in real terms in 2013/14, leaving the council with over £10M less than in 2012/13. Having received provisional grant figures from the Government for 2014/15, a further reduction of 9.5% in real terms, or £15.4M, has been incorporated into the MTFS. By then Wolverhampton will have lost 40% in real terms over the period of the current spending review.

At the same time as making cuts to grants, the Government has also sought to restrict increases in council tax, this has involved:

- Introducing a requirement to carry out a local referendum where a council proposes to increase its council tax by more than a threshold set by the Government. For 2013/14 this was 2%, a reduction compared to the 2012/13 threshold of 3.5%.

- Paying a 'council tax freeze grant' to councils who freeze their council tax. For 2013/14 this was equivalent to a 1% increase in council tax and was payable for two years, a reduction compared to the 2.5% in 2012/13, although that was only payable for one year. As this grant is time limited taking the grant also serves to increase funding and budget pressures in future years.

The council decided to freeze council tax in 2013/14 and to accept the 1% grant from Government. For 2014/15 and beyond the MTFS is based on the assumption that council tax will increase by 2% annually. The actual increases in council tax will however be agreed on an annual basis.

New Local Government Finance System

Major changes to the funding of local government take effect in 2013/14. These are centred on the concept of business rates localisation, in which councils keep around 50% of business rates raised in their own area, with the balance being paid over to the Government.

The intention of this is to provide councils with a direct financial incentive to increase business activity in their local area. Crucially, this also transfers a number of key risks from the Government to councils, increasing the overall level of risk associated with the MTFS.

At the same time as introducing this new system, the Government has also abolished council tax benefit, effectively localising it so that all councils have to develop their own scheme. This was combined with a 10% cut in the funding from Government, which is now fixed rather than being linked to expenditure as was the case in the past. After undertaking a comprehensive consultation exercise the council approved a transitional scheme which includes a minimum charge of 8.5% of council tax, except for pensioners who are protected under legislation, as well as providing a tapered reduction out of support for those returning to work. As a result the council qualified for a transitional Government grant of £600,000.

Due to the requirement to collect small sums from households that have previously paid nothing combined with the fixed nature of the grant, regardless of the level of expenditure the overall level of risk associated with the MTFS has once again increased.

3. THE MEDIUM TERM FINANCIAL STRATEGY

Social and Demographic Factors

The city of Wolverhampton is amongst the most densely populated local authority areas in England with 249,470 people living in its 26.8 square miles. In addition the latest Indices of deprivation (2010) indicate that Wolverhampton is more deprived than it was three years before (2007), a decline from the 28th most deprived to the 20th (out of 326 councils). Although it is important to note that deprivation in the city continues to be concentrated in a number of 'hot spots'.

In addition the city's demographic profile is changing, attracting new residents and increasing diversity, as a result Wolverhampton's population is projected to increase, by about 10,300 (4.1%) between 2011 and 2021. This growth rate is below the national, regional and Black Country averages, this therefore suggest that if population remains a dominant factor for the distribution of Government grant then Wolverhampton will continue to receive a declining share of those resources.

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

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

3. THE MEDIUM TERM FINANCIAL STRATEGY

The Medium Term Financial Strategy

Whilst the council's financial planning process is driven by the annual statutory budget cycle, its horizons extend to the next five financial years. The Medium Term Financial Strategy is a critical part of the council's planning and performance framework, and is kept under continuous review. The latest version of the Medium Term Financial Strategy is summarised below.

	2013/14 £M	2014/15 £M	2015/16 £M	2016/17 £M	2017/18 £M
Net Expenditure Budget	598.5	596.8	607.5	620.9	632.0
Specific Grants	(342.9)	(342.3)	(340.8)	(340.7)	(340.6)
Net Budget	**255.6**	**254.5**	**266.7**	**280.2**	**291.4**
General Funding	(255.6)	(238.1)	(233.0)	(232.1)	(232.3)
Projected Deficit	**0**	**16.4**	**33.7**	**48.1**	**59.1**

As is shown in this table, the council forecasts that it will need to save a further £59M over the next five years, in addition to £39M of savings already planned, and £80M achieved over the previous four financial years. This demonstrates the scale of the financial challenge facing the council. Achieving savings of this size will require the council to fundamentally review its priorities and the way that it allocates budgets. To achieve this it is currently implementing a new budgeting framework that will:

- Include an enhanced focus on efficiency, value for money and outcomes in the provision of services;
- Seek to maximise invest to save opportunities;
- Seek to maximise income generation;
- Improve the targeting and alignment of resources with priorities.

Housing Revenue Account

A number of significant developments are planned for the Housing Revenue Account (HRA) in 2013/14. The council is planning to begin using the new freedoms and resources resulting from the introduction of self-financing in April 2012 to develop new affordable housing in the city. The council has also just approved a new 15-year management agreement with Wolverhampton Homes Limited to continue to manage a large proportion of the council's housing stock.

An updated HRA business plan was approved in February 2013, which reflected the council's plans to invest £1.7bn in its houses over the next 30 years, and demonstrated that under current forecasts there is sufficient funding for this. In terms of 2013/2014, the plan included an average rent increase of 6%, and a freeze in management and maintenance allowances for managing agents. The table below shows the approved budget for 2013/14, along with forecasts for the next two years. Current projections indicate that there are sufficient resources within the HRA to finance the 30 year business plan.

	Budget 2013/2014 £M	Forecast 2014/2015 £M	Forecast 2015/2016 £M
Income			
Gross Rents - Dwellings	(88.973)	(92.037)	(94.821)
Gross Rents - Non Dwellings	(1.614)	(1.661)	(1.691)
Charges to Tenants for Services and Facilities	(5.124)	(5.271)	(5.381)
Total Income	**(95.711)**	**(98.969)**	**(101.893)**
Expenditure			
Management and Maintenance	46.707	47.226	48.654
Depreciation of Long Term Assets	33.267	36.024	38.150
Net Financing Costs	15.737	15.719	15.089
Total Expenditure	**95.711**	**98.969**	**101.893**
Balance	**-**	**-**	**-**

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 2013.

	2013/2014 £M	2014/2015 £M	2015/2016 £M	2016/2017 £M	2017/2018 £M	TOTAL £M
Projected Expenditure	**189.4**	**109.8**	**45.0**	**43.4**	**26.8**	**414.4**

The following table lists some of the main projects in 2013/2014:

Project	Forecast Expenditure 2013/2014 £M
Delivery	
Fleet Services	5.0
ICT Developments	4.8
Facilities Management	3.7
Energy Efficiency Measures	2.8
Provision for Future Rolling Programmes	0.7
Markets Investment	0.5
Recycling and Waste Efficiency Initiatives	0.3
	17.8
Community	
Sports Investment Strategy	3.8
Community Hubs	2.9
Youth Zone	2.2
Parks Refurbishment Programme	1.7
Residential Care for Children and Young People	1.4
Adult Social Care - Other projects	0.9

Project	Forecast Expenditure 2013/2014 £M
Early Education for Two Year Olds	0.7
Electronic Social Care Records	0.7
	14.3
Education and Enterprise	
Building Schools for the Future	37.8
Schools Modernisation, Suitability and Condition	14.6
Physical Regeneration	10.6
i54 Access & Infrastructure	8.9
Highways - West Midlands Major Schemes	6.5
Remediation of contaminated land	6.1
Private Sector Housing	5.2
Highways - Network Development Programme	4.8
Highways - Structural Maintenance	3.3
Schools Devolved Formula Capital	2.8
Property Management - Other projects	1.3
Wolverhampton City Centre Interchange	1.3
Targeted Disposals Programme	1.0
Corporate Asset Management Initiatives	0.7
Civic Halls & Museums	0.1
	105.0
Housing Revenue Account	
Decent Homes Stock Condition	34.7
Major Stock Condition Improvements	10.8
Other Stock Condition Improvements	3.9
Service Enhancements and Miscellaneous	1.4
Adaptations for People with Disabilities	1.0
Other Improvements to the Public Realm	0.4
Estate Remodelling	0.1
	52.3
GRAND TOTAL	**189.4**

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 2013/2014 £M
Grants and Contributions	82.1
Borrowing	75.6
Reserve Funds	27.6
Capital Receipts	4.1
TOTAL	**189.4**

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 Finance.

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

(iii) Approve the Statement of Accounts.

The Assistant Director Finance's Responsibilities

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

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

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

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

(iii) Complied with the Code.

The Assistant Director Finance has also:

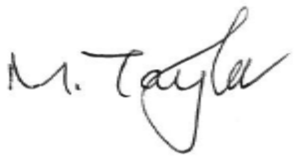
(i) Kept proper accounting records which were up to date.

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

4. STATEMENT OF RESPONSIBILITIES

Certification of the Assistant Director Finance

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2013 and its income and expenditure for the year ended the same date.



Mark Taylor

Assistant Director Finance

26 June 2013

Independent auditors' report to the Members of Wolverhampton City Council

Report on Statement of Accounts

We have audited the statement of accounts of Wolverhampton City Council for the year ended 31 March 2013 which comprise the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Movement in Reserves Statement, the Authority and Group Balance Sheet as at the end of the period, the Authority and Group Cash Flow Statement, the Housing Revenue Account, Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the CIPFA Service Reporting Code of Practice 2012/13.

Respective responsibilities of the Section 151 Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Section 151 Officer is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.
This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the statement of accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority and Group; and the overall presentation of the statement of accounts. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

5. INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WOLVERHAMPTON CITY COUNCIL

Opinion on statement of accounts

In our opinion the statement of accounts:

- gives a true and fair view of the state of the Authority and Group's affairs as at 31 March 2013 and of the Authority's and Group's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Authority to consider it at a public meeting and to decide what action to take in response ; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

Report on the pension fund accounts

We have audited the pension fund accounting statements contained within the Statement of Accounts of Wolverhampton City Council for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

5. INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WOLVERHAMPTON CITY COUNCIL

Respective responsibilities of the Section 151 Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Section 151 Officer is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for Wolverhampton City Council's members as a body in accordance with the Audit Commission Act 1998, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the pension fund accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounting statements sufficient to give reasonable assurance that the pension fund accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the pension fund accounting statements.

Opinion on the pension fund accounting statements

In our opinion the pension fund accounting statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund accounting statements are prepared is consistent with the pension fund accounting statements.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditors' responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.
We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and

- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

<u>Conclusion</u>

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Wolverhampton City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

<u>Certificate</u>

Our audit cannot be formally concluded and a certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission because the Authority has not yet prepared its Pension Fund Annual Report and Accounts on which we are required to give an audit opinion.

Richard Bacon
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
19 Cornwall Street
Birmingham
B3 2DT

Notes:

(a) The maintenance and integrity of the Wolverhampton City Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the statement of accounts may differ from legislation in other jurisdictions.

Comprehensive Income and Expenditure Statement (Council only)

2011/2012					2012/2013		
Gross Expenditure £M	Gross Income £M	Net Expenditure £M		Note	Gross Expenditure £M	Gross Income £M	Net Expenditure £M
127.2	(53.9)	73.3	Adult Social Care		126.5	(57.0)	69.5
19.1	(4.2)	14.9	Central Services to the Public		21.6	(4.0)	17.6
336.7	(240.7)	96.0	Education and Children's Services		398.9	(227.7)	171.2
4.6	(0.1)	4.5	Corporate and Democratic Core		4.7	-	4.7
29.5	(9.8)	19.7	Cultural and Related Services		30.8	(11.6)	19.2
28.3	(7.0)	21.3	Environment and Regulatory Services		27.1	(8.2)	18.9
11.8	(3.8)	8.0	Planning Services		9.6	(3.0)	6.6
26.3	(4.9)	21.4	Highways and Transport Services		31.7	(4.7)	27.0
88.3	(90.5)	(2.2)	Housing Services		83.1	(94.0)	(10.9)
12.1	(59.8)	(47.7)	- Exceptional Item: HRA Self-Financing Settlement	2H	-	-	-
172.6	(170.1)	2.5	Non-Distributed Costs		165.1	(167.6)	(2.5)
			Other Exceptional Items				
10.1	-	10.1	- Contribution to Provision	2H	-	-	-
866.6	**(644.8)**	**221.8**	**Net Cost of Services**		**899.1**	**(577.8)**	**321.3**
13.6	-	13.6	Levies		13.4	-	13.4
2.4	-	2.4	Payments to the Housing Capital Receipts Pool		1.5	-	1.5
28.0	(6.6)	21.4	(Gains)/Losses on the Disposal of Non-current Assets		36.9	(9.3)	27.6

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

2011/2012 Gross Expenditure £M	2011/2012 Gross Income £M	2011/2012 Net Expenditure £M		Note	2012/2013 Gross Expenditure £M	2012/2013 Gross Income £M	2012/2013 Net Expenditure £M
0.3	(0.5)	(0.2)	External Trading Organisations		2.1	(0.8)	1.3
28.2	-	28.2	Interest Payable		25.4	-	25.4
56.5	(44.7)	11.8	Pensions Interest Cost and Expected Return on Pensions Assets		54.2	(40.4)	13.8
-	(0.7)	(0.7)	Interest Receivable		-	(0.4)	(0.4)
-	(0.1)	(0.1)	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		-	-	-
-	(0.6)	(0.6)	Other Investment Income		-	(0.6)	(0.6)
-	(93.1)	(93.1)	Council Tax		(0.1)	(93.7)	(93.8)
-	(110.8)	(110.8)	National Non-domestic Rates		-	(134.2)	(134.2)
-	(37.7)	(37.7)	Unringfenced Revenue Grants Receivable		-	(7.8)	(7.8)
-	(60.2)	(60.2)	Capital Grants Receivable		-	(79.5)	(79.5)
995.6	**(999.8)**	**(4.2)**	**Deficit or (Surplus) on the Provision of Services**		**1,032.5**	**(944.5)**	**88.0**
-	(9.2)	(9.2)	(Surplus) or Deficit on Revaluation of Non-current Assets		35.0	-	35.0
-	(1.7)	(1.7)	(Surplus) or Deficit on Revaluation of Available-for-sale Financial Assets		-	-	-
68.5	-	68.5	Actuarial (Gains) and Losses on Pension Assets and Liabilities		101.9	-	101.9
1,064.1	**(1,010.7)**	**53.4**	**Total Comprehensive Income and Expenditure**		**1,169.4**	**(944.5)**	**224.9**

Comprehensive Income and Expenditure Statement (Group)

2011/2012 Gross Expenditure £M	2011/2012 Gross Income £M	2011/2012 Net Expenditure £M		Note	2012/2013 Gross Expenditure £M	2012/2013 Gross Income £M	2012/2013 Net Expenditure £M
127.2	(53.9)	73.3	Adult Social Care		126.5	(57.0)	69.5
19.1	(4.0)	15.1	Central Services to the Public		21.6	(4.0)	17.6
336.7	(240.7)	96.0	Education and Children's Services		398.9	(227.7)	171.2
4.6	(0.1)	4.5	Corporate and Democratic Core		4.7	-	4.7
29.5	(9.8)	19.7	Cultural and Related Services		30.8	(11.6)	19.2
28.3	(7.0)	21.3	Environment and Regulatory Services		27.1	(8.2)	18.9
11.8	(3.8)	8.0	Planning Services		9.6	(3.0)	6.6
26.3	(4.8)	21.5	Highways and Transport Services		31.7	(4.4)	27.3
174.8	(180.4)	(5.6)	Housing Services		81.0	(92.6)	(11.6)
12.1	(59.8)	(47.7)	- Exceptional Item: HRA Self-Financing Settlement	2H	-	-	-
172.6	(169.3)	3.3	Non-Distributed Costs		165.1	(167.6)	(2.5)
			Exceptional Items				
10.1	-	10.1	- Contribution to Provision	2H	-	-	-
953.1	**(733.6)**	**219.5**	**Net Cost of Services**		**897.0**	**(576.1)**	**320.9**
13.6	-	13.6	Levies		13.4	-	13.4
2.4	-	2.4	Payments to the Housing Capital Receipts Pool		1.5	-	1.5
28.0	(6.6)	21.4	(Gains)/Losses on the Disposal of Non-Current Assets		36.9	(9.3)	27.6

Comprehensive Income and Expenditure Statement (Group) (Continued)

	2011/2012			Note		2012/2013	
Gross Expenditure £M	**Gross Income £M**	**Net Expenditure £M**			**Gross Expenditure £M**	**Gross Income £M**	**Net Expenditure £M**
0.3	(0.5)	(0.2)	External Trading Organisations		2.1	0.9	3.0
28.2	-	28.2	Interest Payable		25.4	-	25.4
61.6	(50.0)	11.6	Pensions Interest Cost and Expected Return on Pensions Assets		59.4	(45.4)	14.0
-	(0.7)	(0.7)	Interest Receivable		-	(0.5)	(0.5)
-	(0.1)	(0.1)	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		-	-	-
-	(0.6)	(0.6)	Other Investment Income		-	(0.6)	(0.6)
-	(93.1)	(93.1)	Council Tax		(0.1)	(93.7)	(93.8)
-	(110.8)	(110.8)	National Non-domestic Rates		-	(134.2)	(134.2)
-	(37.7)	(37.7)	Unringfenced Revenue Grants Receivable		-	(7.8)	(7.8)
-	(60.2)	(60.2)	Capital Grants Receivable		-	(79.5)	(79.5)
1,087.2	**(1,093.9)**	**(6.7)**	**Deficit or (Surplus)on the Provision of Services**		**1,035.6**	**(946.2)**	**89.4**
-	(9.2)	(9.2)	(Surplus) or Deficit on Revaluation of Non-current Assets		35.0	-	35.0
-	(1.7)	(1.7)	(Surplus) or Deficit on Revaluation of Available-for-sale Financial Assets		-	-	-
72.0	-	72.0	Actuarial (Gains) and Losses on Pension Assets and Liabilities		110.7	-	110.7
1,159.2	**(1,104.8)**	**54.4**	**Total Comprehensive Income and Expenditure**		**1,181.3**	**(946.2)**	**235.1**

Balance Sheets

31 March 2012 Council £M	31 March 2012 *Group £M*		Note	31 March 2013 Council £M	31 March 2013 *Group £M*
1,593.3	*1,593.3*	Property, Plant and Equipment	5	1,535.9	*1,535.9*
16.3	*16.3*	Investment Property	5	14.3	*14.3*
1.4	1.4	Intangible Assets	5	1.7	*1.7*
11.5	11.5	Heritage Assets	5	11.5	*11.5*
18.6	18.6	Non-current Investments		18.6	*18.6*
1.0	1.0	Non-current Debtors		1.5	*1.5*
1,642.1	***1,642.1***	**Total Non-current Assets**		**1,583.5**	***1,583.5***
8.6	*8.6*	Current Investments		4.5	*4.5*
0.5	*0.5*	Inventories		0.6	*0.6*
52.4	*50.7*	Current Debtors	3	69.7	*69.1*
2.6	*14.1*	Cash and Cash Equivalents		3.5	*12.1*
64.1	***73.9***	**Total Current Assets**		**78.3**	***86.3***
(13.7)	*(13.7)*	Current Borrowing		(43.8)	*(43.8)*
(87.1)	*(91.0)*	Current Creditors	3	(76.6)	*(79.1)*
(34.2)	*(34.2)*	Current Provisions	4A	(30.6)	*(30.6)*
(135.0)	***(138.9)***	**Total Current Liabilities**		**(151.0)**	***(153.5)***
(481.0)	*(481.0)*	Non-current Borrowing		(492.4)	*(492.4)*
(443.4)	*(461.9)*	Net Pension Liability	6	(551.7)	*(580.0)*
(8.5)	*(8.5)*	Capital Grants Received in Advance		(9.9)	*(9.9)*
(42.6)	*(42.6)*	Other Non-current Liabilities		(86.0)	*(86.0)*
(975.5)	***(994.0)***	**Total Non-current Liabilities**		**(1,140.0)**	***(1,168.3)***
595.7	***583.1***	**Net Assets**		**370.8**	***348.0***

Balance Sheets (Continued)

31 March 2012				31 March 2013	
Council £M	*Group £M*		Note	Council £M	*Group £M*
(19.5)	*(19.5)*	General Fund Balance	10B, 10C	(15.9)	*(15.9)*
(83.6)	*(83.6)*	General Fund Earmarked Reserves	10B, 10C	(61.1)	*(61.1)*
(10.5)	(10.5)	Housing Revenue Account Balance	10B, 10C	(5.0)	*(5.0)*
(5.2)	(5.2)	Major Repairs Reserve	10B, 10C	(9.7)	*(9.7)*
(2.3)	(2.3)	Capital Receipts Reserve	10B, 10C	(5.5)	*(5.5)*
(36.1)	(36.1)	Capital Grants Unapplied Account	10B, 10C	(31.6)	*(31.6)*
-	*12.6*	Reserves of Subsidiary	10B, 10C	-	*22.8*
(157.2)	***(144.6)***	**Total Usable Reserves**		**(128.8)**	***(106.0)***
6.2	6.2	Short-term Accumulating Compensated Absences Account	10B, 10C	6.9	*6.9*
(12.1)	(12.1)	Available-for-sale Financial Instruments Reserve	10B, 10C	(12.1)	*(12.1)*
(603.8)	(603.8)	Capital Adjustment Account	10B, 10C	(577.7)	*(577.7)*
0.1	0.1	Collection Fund Adjustment Account	10B, 10C	0.5	*0.5*
2.9	2.9	Financial Instruments Adjustment Account	10B, 10C	3.2	*3.2*
443.4	443.4	Pensions Reserve	10B, 10C	551.7	*551.7*
(275.2)	(275.2)	Revaluation Reserve	10B, 10C	(214.5)	*(214.5)*
(438.5)	***(438.5)***	**Total Unusable Reserves**		**(242.0)**	***(242.0)***
(595.7)	***(583.1)***	**Total Reserves**		**(370.8)**	***(348.0)***

The notes on pages 37 to 123 form part of the financial statements.

Movement in Reserves Statement – 2012/2013

(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	**(19.5)**	**(83.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**	**(438.5)**	**(595.7)**	***12.6***	***(583.1)***
Surplus or Deficit on Provision of Services	97.3	-	(9.3)	-	-	-	**88.0**	-	**88.0**	*1.4*	***89.4***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	136.9	**136.9**	*8.8*	***145.7***
Total Comprehensive Income and Expenditure	**97.3**	**-**	**(9.3)**	**-**	**-**	**-**	**88.0**	**136.9**	**224.9**	***10.2***	***235.1***
Adjustments between Accounting Basis & Funding Basis under Regulations	(71.4)	-	15.0	(4.5)	(3.2)	4.5	**(59.6)**	59.6	**-**	-	**-**
Net Decrease/(Increase) before Transfers & Other Movements	**25.9**	**-**	**5.7**	**(4.5)**	**(3.2)**	**4.5**	**28.4**	**196.5**	**224.9**	***10.2***	***235.1***
Transfers to/from other Reserves	(22.3)	22.5	(0.2)	-	-	-	**-**	-	**-**	-	**-**
Decrease/(Increase) for the Year	**3.6**	**22.5**	**5.5**	**(4.5)**	**(3.2)**	**4.5**	**28.4**	**196.5**	**224.9**	***10.2***	***235.1***
Balance Carried Forward	**(15.9)**	**(61.1)**	**(5.0)**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**	**(242.0)**	**(370.8)**	***22.8***	***(348.0)***

Movement in Reserves Statement – 2011/2012

	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)**	**(497.5)**	**(649.1)**	***11.6***	***(637.5)***
Surplus or Deficit on Provision of Services	47.1	-	(51.3)	-	-	-	**(4.2)**	-	**(4.2)**	*(2.5)*	***(6.7)***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	57.6	**57.6**	*3.5*	***61.1***
Total Comprehensive Income and Expenditure	**47.1**	**-**	**(51.3)**	**-**	**-**	**-**	**(4.2)**	**57.6**	**53.4**	***1.0***	***54.4***
Adjustments between Accounting Basis & Funding Basis under Regulations	(47.4)	-	46.1	(0.6)	(0.5)	1.0	**(1.4)**	1.4	**(0.0)**	*-*	***(0.0)***
Net Increase/Decrease before Transfers & Other Movements	**(0.3)**	**-**	**(5.2)**	**(0.6)**	**(0.5)**	**1.0**	**(5.6)**	**59.0**	**53.4**	***1.0***	***54.4***
Transfers to/from other Reserves	20.3	(20.1)	(0.2)	-	-	-	**-**	-	**-**	*-*	***-***
Decrease/(Increase) for the Year	**20.0**	**(20.1)**	**(5.4)**	**(0.6)**	**(0.5)**	**1.0**	**(5.6)**	**59.0**	**53.4**	***1.0***	***54.4***
Balance Carried Forward	**(19.5)**	**(83.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**	**(438.5)**	**(595.7)**	***12.6***	***(583.1)***

Cash Flow Statement

2011/2012 Council £M	2011/2012 *Group £M*		2012/2013 Council £M	2012/2013 *Group £M*
(26.0)	*(28.5)*	Net (surplus) or deficit on the provision of services	88.0	*89.4*
(136.7)	*(139.1)*	Adjust for non-cash movements	(163.5)	*(161.8)*
6.6	*6.6*	Adjust for items that are investing and financing activities	9.3	*9.3*
(156.1)	***(161.0)***	**Net cash flows from operating activities**	**(66.2)**	***(63.1)***
		Comprising:		
29.0	*29.0*	Interest paid	25.4	*25.2*
(0.7)	*(0.7)*	Interest received	(0.4)	*(0.4)*
(0.6)	*(0.6)*	Dividends received	(0.6)	*(0.6)*
(183.8)	*(188.7)*	Other operating activities	(90.6)	(87.5)
(156.1)	***(161.0)***	**Net cash flows from operating activities**	**(66.2)**	***(63.3)***
		Investing activities		
124.0	*124.0*	Purchase of property, plant and equipment, investment property and intangible assets	150.7	*150.7*
627.0	*627.0*	Purchase of short-term and long-term investments	571.2	*571.2*
0.4	*0.4*	Other payments for investing activities	-	-
(6.6)	*(6.6)*	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9.3)	*(9.3)*
(642.3)	*(642.3)*	Other receipts from investing activities	(576.2)	*(576.2)*
102.5	***102.5***	**Net cash flows from total investing activities**	**136.4**	***136.4***

Cash Flow Statement (continued)

2011/2012 Council £M	2011/2012 *Group £M*		2012/2013 Council £M	2012/2013 *Group £M*
		Financing activities		
(1.6)	*(1.6)*	Cash receipts of short- and long-term borrowing	(171.5)	*(171.5)*
1.2	*1.2*	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.0	*1.0*
53.3	*53.3*	Repayments of short-and long-term borrowing	85.4	*85.4*
52.9	***52.9***	**Net cash flows from total financing activities**	**(85.1)**	***(85.1)***
(0.7)	***(5.6)***	**Net (increase) or decrease in cash and cash equivalents**	**(14.9)**	***(12.0)***
		Cash and cash equivalents at the start 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***
		Cash and cash equivalents at the end of the year:		
0.2	*0.2*	- Cash held by the council	0.2	*0.2*
2.4	*13.9*	- Bank current accounts	3.3	*11.9*
2.6	***14.1***		**3.5**	***12.1***

Note 1 – Financial Performance for 2012/2013

The purpose of this note is to show how the council's financial performance for 2012/2013 was reported to its management (senior officers and councillors).

General Fund

The following table compares the council's General Fund outturn for 2012/2013 to its budget. It splits the figures by directorate, which is the format used for internal reporting to management. This table is calculated in line with the legal requirements. As the table shows, there was a deficit of £3.6M on the council's net General Fund expenditure for the year. After taking into account net transfers to/from earmarked reserves, there was a reduction in the General Fund Balance of £3.6M, to £15.9M.

Service	2012/2013 Net Budget £000	2012/2013 Net Outturn £000	Total Variation Over/(Under) £000
Community	142,287	143,401	1,114
Delivery	39,131	38,914	(217)
Education and Enterprise	50,195	133,719	83,524
Office of the Chief Executive	2,790	2,697	(93)
Corporate Budgets	374	(82,870)	(83,244)
Budget Requirement	**234,777**	**235,861**	**1,084**
Funding:			
Formula Grant	(136,807)	(134,206)	2,601
Council Tax	(94,314)	(94,314)	-
Other General Government Grants	(2,700)	(3,729)	(1,029)
Use of Reserves	(956)	(3,612)	(2,656)
Total Funding	**(234,777)**	**(235,861)**	**(1,084)**
Budget (Surplus)/Deficit	**-**	**-**	**-**

Housing Revenue Account

The outturn position for the year was an operating surplus of £8.8M, compared to a budgeted surplus of £5.5M. 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 £000	2012/2013 Outturn £000	Variation £000
Income			
Gross Rents - Dwellings	(82,666)	(82,977)	(311)
Gross Rents - Non Dwellings	(1,552)	(1,600)	(48)
Charges to Tenants for Services and Facilities	(4,854)	(5,007)	(153)
Total Income	**(89,072)**	**(89,584)**	**(512)**
Expenditure			
Repairs and Maintenance	26,263	26,089	(174)
Supervision and Management	17,573	17,240	(333)
Rents, Rates and Taxes	153	237	84
Negative HRA Subsidy Payable	-	40	40
Increase in Provision for Bad Debts	1,000	563	(437)
Depreciation of Long Term Assets	21,949	22,547	598
Total Expenditure	**66,938**	**66,716**	**(222)**
Net Cost of HRA Services	**(22,134)**	**(22,868)**	**(734)**
Interest Payable	16,640	14,239	(2,401)
Interest and Investment Income	(3)	(150)	(147)
Adjustment for Premiums & Discounts	(18)	(18)	-

	Approved Budget £000	2012/2013 Outturn £000	Variation £000
Surplus before Transfers to/from Reserves and Provision for Redemption of Debt	**(5,515)**	**(8,797)**	**(3,282)**
Allocation of Surplus			
Provision for Redemption of Debt	4,735	14,250	9,515
Transfer to/(from) Reserves	780	(5,453)	(6,233)
Balance for the Year	**-**	**-**	**-**

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 £000	Outturn £000	Variation Over/(Under) £000
General Fund			
Private Sector Housing	4,059	2,792	(1,267)
Delivery	4,595	2,895	(1,700)
Community	4,322	1,860	(2,462)
Education and Enterprise	127,977	111,949	(16,028)
	140,953	**119,496**	**(21,457)**
Housing Revenue Account	47,978	41,424	(6,554)
Total Expenditure	**188,931**	**160,920**	**(28,011)**

Financing	Approved Funding £000	Outturn Funding £000	Variation Over/(Under) £000
General Fund			
External Funding			
Supported Borrowing	(40)	-	40
Grants & Contributions	97,216	96,581	(635)
	97,176	**96,581**	**(595)**
	68.94%	80.82%	
Council Funding			
Capital Receipts	4,649	3,032	(1,617)
Prudential Borrowing	39,016	19,653	(19,363)
Revenue Contributions	112	230	118
	43,777	**22,915**	**(20,862)**
	31.06%	19.18%	
Total General Fund Financing	**140,953**	**119,496**	**(21,457)**
Housing Revenue Account			
External Funding			
Supported Borrowing	40	-	(40)
Grants & Contributions	20,900	21,291	391
	20,940	**21,291**	**351**
	43.65%	51.40%	
Council Funding			
Capital Receipts	1,950	1,259	(691)

Financing	Approved Funding £000	Outturn Funding £000	Variation Over/(Under) £000
Prudential Borrowing	3,973	1,391	(2,582)
Major Repairs Reserve	21,115	17,483	(3,632)
	27,038	**20,133**	**(6,905)**
	56.35%	48.60%	
Total Housing Revenue Account Financing	**47,978**	**41,424**	**(6,554)**

Reserves

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

	Balance at 31 March 2012 £000	Net Movement 2012/2013 £000	Balance at 31 March 2013 £000
Earmarked Reserves			
Community	3,834	(1,212)	2,622
Education and Enterprise (Non-Schools)	10,106	(2,645)	7,461
Office of the Chief Executive and Delivery	5,318	(329)	4,989
Corporate	43,135	(3,244)	39,891
Total Earmarked Reserves	**62,393**	**(7,430)**	**54,963**
Other Reserves			
Schools' Balances	21,209	(3,607)	17,602
General Fund Balance	19,540	(3,575)	15,965
Housing Revenue Account Balance	10,452	(5,452)	5,000
Total Usable Revenue Reserves	**113,594**	**(20,064)**	**93,530**

Note 2 – Income and Expenditure

2A – Trading Operations

2011/2012			2012/2013	
(Turnover) £M	(Surplus)/ Deficit £M	Operation	Turnover £M	Deficit/ (Surplus) £M
(2.2)	(0.2)	Markets	(2.3)	2.3
(3.9)	-	Cleaning of Buildings	(4.0)	(0.3)
(3.3)	-	Ground Maintenance	(3.2)	-
(3.0)	-	Street Cleaning	(3.0)	-
(7.9)	-	Schools and Welfare Catering	(7.4)	-
(0.3)	-	Other Catering	(0.3)	-
(7.0)	-	Transport Services	(9.4)	(0.6)
(0.9)	-	Former DSO Depots	(0.9)	-
(28.5)	**(0.2)**	**Total**	**(30.5)**	**1.4**

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the council's services to the public (eg Street Cleaning), whilst others are support services to the council's services to the public (eg Schools and Welfare Catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. Expenditure and income attributable to the external element of trading operations are disclosed on the face of the Comprehensive Income and Expenditure Statement.

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.

2011/2012			Scheme	2012/2013		
Council Contribution £M	**PCT Contribution £M**	**Total Expenditure £M**		**Council Contribution £M**	**PCT Contribution £M**	**Total Expenditure £M**
1.8	1.2	3.0	Child Placements with External Agencies (Council) - An integrated service to provide placements for children with social care, education and health needs	2.3	1.5	3.8
0.4	0.8	1.2	Intermediate Care Services (PCT) - Provides an integrated service with a focus on independence and effective rehabilitation	-	-	-
16.5	0.8	17.3	Learning Disability Services (Council) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	25.4	1.0	26.4
1.6	0.5	2.1	Independent Living Service (Council) - Provides equipment and adaptations for Wolverhampton residents	-	-	-
4.4	16.3	20.7	Mental Health Service (Council and PCT) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	4.6	16.4	21.0

2C – Councillors' Allowances

The council paid £1.0M in councillors' allowances during 2012/2013 (2011/2012: £1.0M).

2D – Senior Officers' Remuneration

Name / Post	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities (Note 1) £	TOTAL £
	2012/2013						
Senior employees with a salary of £0.150M or more.							
Simon Warren, Chief Executive	140,958	-	1,989	-	30,165	17,505	**190,617**
Charles Green, Strategic Director, Education and Enterprise (Note 2)	187,223	-	-	-	-	-	**187,223**
Keith Ireland, Strategic Director, Delivery (Note 3)	162,063	-	497	-	6,203	-	**168,763**
Tom Rennie, Strategic Director, Delivery (Note 4)	9,420	-	-	-	-	-	**9,420**
Senior employees with a salary of less than £0.150M							
Strategic Director, Communities	130,818	-	1,989	-	24,968	-	**157,775**
Director of Pensions	120,831	-	1,989	-	23,090	-	**145,910**
Assistant Chief Executive	73,012	-	722	48,984	12,628	-	**135,346**
Assistant Director, Governance	63,503	-	599	139,200	10,974	5,307	**219,583**
Assistant Director, Corporate Services (Section 151 Officer) (Note 5)	89,563	-	963	-	18,521	8,956	**118,003**
Chief Financial Officer (Section 151 Officer) (Note 5)	71,427	-	963	-	13,428	-	**85,818**
TOTAL	**1,048,818**	**-**	**9,711**	**188,184**	**139,977**	**31,768**	**1,418,458**

Name / Post	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities (Note 1) £	TOTAL £
	2011/2012						
Senior employees with a salary of £0.150M or more							
Simon Warren, Chief Executive	138,432	-	1,989	-	28,681	17,166	**186,268**
Tom Rennie, Strategic Director, Delivery (Note 4)	218,218	-	11,838	-	-	-	**230,056**
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 6)	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 7)	113,817	-	1,989	-	25,220	22,763	**163,789**
Director of Pensions (Note 7)	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**

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

Note 2: The post of Strategic Director, Education and Enterprise was held on an interim basis throughout 2011/2012 and 2012/2013. The figures for 2012/2013 include a late payment of £13,737.50 in relation to 2011/2012 not previously reported.

Note 3: The post of Strategic Director, Delivery was held on an interim basis for part of 2012/2013, with the remainder being on a permanent basis.

Note 4: The post of Strategic Director, Delivery was held on an interim basis throughout 2011/2012, and for part of 2012/2013.

Note 5: The role of Section 151 Officer was held by two individuals during 2012/2013. The amounts disclosed in this note relate to the full year's salary for both of those individuals, with the transfer of responsibilities having taken place in November 2012.

Note 6: The Assistant Director, Corporate Services (Section 151 Officer) received back pay for pension responsibilities relating to prior years during 2011/2012.

Note 7: The post of Director of Pensions was held by two individuals during 2011/2012.

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.

2011/2012						Band	2012/2013					
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
-	-	-	-	-	-	£120-£125,000	-	1	-	-	1	-
-	-	-	-	-	-	£115-£120,000	1	-	-	-	-	-
1	-	-	-	-	-	£110-£115,000	-	-	-	-	-	-
-	-	-	-	-	-	£105-£110,000	-	-	-	-	-	-
-	-	-	-	-	-	£100-£105,000	-	-	-	-	-	-
1	-	-	-	-	-	£95-£100,000	2	-	-	-	-	-
2	-	-	-	-	-	£90-£95,000	1	-	-	-	-	-
5	1	-	-	-	-	£85-£90,000	5	-	9	-	-	1
2	-	9	-	-	-	£80-£85,000	2	1	2	-	1	1
7	-	2	-	-	1	£75-£80,000	3	-	2	-	-	1
9	-	10	-	-	7	£70-£75,000	11	-	4	1	-	4
12	-	6	-	-	3	£65-£70,000	23	-	4	1	-	2
34	-	6	1	-	2	£60-£65,000	30	-	5	2	-	1
50	3	26	3	-	5	£55-£60,000	44	3	32	1	-	4
55	3	43	3	-	4	£50-£55,000	64	1	43	4	-	-
178	**7**	**102**	**7**	**-**	**22**	**Total**	**186**	**6**	**101**	**9**	**2**	**14**

2E – Exit Packages

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

2011/2012 Compulsory		2011/2012 Voluntary		2011/2012 Total		Value of Individual Package	2012/2013 Compulsory		2012/2013 Voluntary		2012/2013 Total	
No.	£M	No.	£M	No.	£M		No.	£M	No.	£M	No.	£M
-	-	-	-	-	-	£150,000 to £200,000	1	0.2	-	-	1	0.2
-	-	1	0.1	1	0.1	£100,000 to £150,000	-	-	-	-	-	-
2	-	1	0.1	3	0.1	£80,000 to £100,000	1	0.1	1	0.1	2	0.2
-	-	5	0.3	5	0.3	£60,000 to £80,000	1	0.1	2	0.1	3	0.2
2	0.1	9	0.4	11	0.5	£40,000 to £60,000	2	0.1	4	0.1	6	0.2
10	0.2	24	0.7	34	0.9	£20,000 to £40,000	10	0.2	7	0.1	17	0.3
64	0.2	112	1.0	176	1.2	Less than £20,000	50	0.3	40	0.3	90	0.6
78	**0.5**	**152**	**2.6**	**230**	**3.1**	**Total**	**65**	**1.0**	**54**	**0.7**	**119**	**1.7**

2F – Amounts Payable to the Auditor

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

2011/2012 £M		2012/2013 £M
	Audit Commission – statutory inspections:	
-	- Audit inspection fee	-
(0.033)	- Rebates for arrangements relating to the abolition of the Audit Commission (*)	(0.022)
(0.033)	**Sub Total Audit Commission**	**(0.022)**
	PricewaterhouseCoopers LLP	
0.419	- External audit (council)	0.251
0.062	- External audit (West Midlands Pension Fund)	0.049
0.100	- Certification of grant claims and returns	0.088
0.427	- Additional work (**)	0.115
1.008	**Sub Total PricewaterhouseCoopers LLP**	**0.503**
0.975	**TOTAL**	**0.481**

* The rebates of £0.033M in 2011/2012 and £0.022M in 2012/2013 were intended to smooth any financial impact of the abolition of the Audit Commission on Local Authorities.

** The fees to PricewaterhouseCoopers LLP in 2011/2012 for additional work relate to the following: £0.080M risk based work, £0.096M 2010/2011 overruns, £0.224M estates review and £0.027M VAT claims support. In 2012/2013, the additional work related to £0.070M risk based work, £0.036M estates review and £0.009M HRA delivery options review.

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 2011. The Schools Budget includes elements for a restricted range of educational services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and under-spends on the two elements are required to be accounted for separately. The table below shows how the council applied its DSG.

2011/2012 Central Expenditure £M	2011/2012 Individual Schools Budget £M	2011/2012 Total £M		2012/2013 Central Expenditure £M	2012/2013 Individual Schools Budget £M	2012/2013 Total £M
		(187.7)	Final DSG for the year before academy recoupment			(189.8)
		12.6	Academy figure recouped			22.1
		(175.1)	**Total DSG after academy recoupment for the year**			**(167.7)**
		-	Brought forward from previous year			-
		-	Carry-forward to following year agreed in advance			-
(15.1)	**(160.0)**	**(175.1)**	**Agreed initial budgeted distribution in the year**	**(10.4)**	**(157.3)**	**(167.7)**
-	-	-	In year adjustments	-	-	-
(15.1)	**(160.0)**	**(175.1)**	**Final budgeted distribution for the year**	**(10.4)**	**(157.3)**	**(167.7)**
16.2		16.2	Less actual central expenditure	10.8		10.8
	160.0	160.0	Less actual ISB deployed to schools		157.3	157.3
(1.1)	-	(1.1)	Plus local authority contribution	(0.4)	-	(0.4)
-	**-**	**-**	**Carry forward to following year**	**-**	**-**	**-**

Note 2H – Exceptional Items

In 2012/13, there were no exceptional items of expense or income.

There were two exceptional items of expense and one of income in 2011/12. 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 (2010/11: £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.

Note 2I – Events after the Reporting Period

On 1 April 2013, significant changes to the funding of local government took effect. One of these changes was the partial retention by councils of business rates raised in their area (in contrast to the previous system, which required all rates to be paid over to the Government for national re-distribution). As part of this change, councils assumed the liability for refunding rate payers who successfully appeal against the rateable value of their properties, including amounts that were paid to the Government in 2012/2013 and earlier. This will require the council to set aside a provision for these refunds in future years. Had this treatment applied at 31 March 2013, the council would have set aside a provision of £2.7M.

Note 3 – Current Receivables and Payables

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

3A – Current Receivables

31 March 2012		Type of organisation	31 March 2013	
Council £M	*Group £M*		Council £M	*Group £M*
12.5	*12.5*	Central government bodies	32.4	*32.4*
39.9	*38.2*	Bodies external to general government	37.3	*36.7*
52.4	**50.7**	**Total**	**69.7**	***69.1***

3B – Current Payables

31 March 2012		Type of organisation	31 March 2013	
Council £M	*Group £M*		Council £M	*Group £M*
(6.5)	*(8.2)*	Central government bodies	(4.3)	*(5.4)*
(0.1)	*(0.1)*	Other local authorities	(0.2)	*(0.2)*
-	-	NHS bodies	(0.7)	*(0.7)*
(80.5)	*(82.7)*	Bodies external to general government	(71.4)	*(72.8)*
(87.1)	**(91.0)**	**Total**	**(76.6)**	***(79.1)***

Note 4 – Provisions and Contingent Liabilities

4A – Provisions

Balance at 31 March 2012 £M	Provision Name	Provision Details	Amounts Used in 2012/2013 £M	Provisions Made in 2012/2013 £M	Balance at 31 March 2013 £M
(30.0)	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. It is currently uncertain when payments might need to be made, and the value of any such payments. No reimbursement would be receivable.	3.5	-	(26.5)
(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 £2.6M is in respect of the outstanding claims under the self-insurance programme covering the current and past years.	-	(0.3)	(2.6)
(1.0)	Termination Benefits	During 2011/2012 and 2012/2013, the council undertook a voluntary redundancy exercise. As a result of this initiative, 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.	1.0	(0.5)	(0.5)
(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.	0.1	-	(0.2)
(0.4)	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 2012/2013.	0.4	(0.5)	(0.5)

Balance at 31 March 2012 £M	Provision Name	Provision Details	Amounts Used in 2012/2013 £M	Provisions Made in 2012/2013 £M	Balance at 31 March 2013 £M
(0.1)	Housing Revenue Account	There are three separate provisions: for legal disrepair claims, for tenant management organisation expenditure and for rent bonds.	-	(0.1)	(0.1)
(0.1)	Other	These are small amounts relating to ex-members of the pension fund and refunds of aftercare payments made by residents subsequently falling within Section 117 of the Mental Health Act 1983 and from whom charges are not due.	-	-	(0.2)
(34.2)	**TOTAL**		**5.0**	**(1.4)**	**(30.6)**

4B – Contingent Liabilities

At 31 March 2013, 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 2013 is £10.1M (31 March 2012 - £11.1M).

- 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 2012: £30.0M). 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 2013 is estimated at £0.6M (31 March 2012: £0.8M).

- 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 2012/13, 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 Limited 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.

- The council was previously insured by Municipal Mutual Insurance (MMI). MMI is subject to a contingent Scheme of Arrangement, the terms of which were triggered in November 2012. As a result, there is the possibility that the council may be subject to claw back of both previous and future paid claims. The value of any such claw back is estimated to be approximately £0.5M.

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 2012			2012/2013										Carrying Value at 31 March 2013		
	Gross Value	Accumulated Depreciation/Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluations/ Fair Value Gains/(Losses)	Depreciation Writeback on Revaluation	Impairments	Impairments Reversed	Depreciation/ Amortisation	Other Changes - Gross Value	Other Changes - Accumulated Depreciation/ Impairment	Gross Value	Accumulated Depreciation/Impairment	Net Value
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Council Dwellings	1,224.2	(552.1)	**672.1**	41.4	(3.8)	-	-	-	-	-	(21.9)	-	-	1,261.8	(574.0)	**687.8**
Other Land and Buildings	951.2	(212.9)	**738.3**	92.9	(42.6)	12.5	(105.1)	68.8	(64.8)	3.5	(23.6)	(29.8)	2.0	866.6	(214.5)	**652.1**
Vehicles, Plant, Furniture and Equipment	62.5	(46.0)	**16.5**	4.1	-	-	-	-	-	-	(5.9)	0.2	-	66.8	(51.9)	**14.9**
Infrastructure Assets	250.2	(115.2)	**135.0**	6.8	-	-	-	-	-	-	(10.5)	(1.0)	-	256.0	(125.7)	**130.3**
Community Assets	27.4	(4.9)	**22.5**	0.3	(0.1)	-	(0.1)	-	-	-	-	-	-	27.5	(4.9)	**22.6**
Surplus Assets	13.2	(5.2)	**8.0**	1.0	(0.7)	-	(7.3)	8.6	(11.1)	1.4	(1.1)	36.9	(7.4)	43.1	(14.8)	**28.3**
Assets Under Construction	0.9	-	**0.9**	-	-	-	-	-	-	-	-	(0.9)	-	-	-	**-**
Investment Properties	19.2	(2.9)	**16.3**	0.1	(2.4)	0.3	-	-	-	-	-	-	-	16.9	(2.6)	**14.3**
Intangible Assets	1.9	(0.5)	**1.4**	0.6		-	-	-	-	-	(0.3)	-	-	2.5	(0.8)	**1.7**
Heritage Assets	11.5	-	**11.5**	-		-	-	-	-	-	-	-	-	11.5	-	**11.5**
Total	**2,562.2**	**(939.7)**	**1,622.5**	**147.2**	**(49.6)**	**12.8**	**(112.5)**	**77.4**	**(75.9)**	**4.9**	**(63.3)**	**5.4**	**(5.4)**	**2,552.7**	**(989.2)**	**1,563.5**

	Carrying Value at 1 April 2011			2011/2012									Carrying Value at 31 March 2012		
	Gross Value	Accumulated Depreciation/Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation)	Revaluations/ Fair Value Gains/(Losses)	Depreciation Writeback on Revaluation	Impairments	Depreciation/ Amortisation	Other Changes - Gross Value	Other Changes - Accumulated Depreciation/ Impairment	Gross Value	Accumulated Depreciation/Impairment	Net Value
	£M	£M	£M	£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)	(265.2)	266.4	1,224.2	(552.1)	**672.1**
Other Land and Buildings	941.0	(193.2)	**747.8**	55.3	(33.0)	8.4	8.6	0.5	(7.6)	(23.2)	(20.7)	2.2	951.2	(212.9)	**738.3**
Vehicles, Plant, Furniture and Equipment	59.5	(37.0)	**22.5**	3.4	(0.1)	-	-	-	-	(9.1)	(0.3)	0.1	62.5	(46.0)	**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	-	-	-	-	-	-	(39.4)	40.0	27.4	(4.9)	**22.5**
Surplus Assets	11.5	(10.5)	**1.0**	0.2	(0.3)	-	(0.1)	-	(3.0)	(0.2)	1.9	8.5	13.2	(5.2)	**8.0**
Assets Under Construction	3.9	-	**3.9**	0.8	-	-	-	-	-	-	(3.8)	-	0.9	-	**0.9**
Investment Properties	17.7	-	**17.7**	-	(1.8)	-	0.1	-	-	-	3.2	(2.9)	19.2	(2.9)	**16.3**
Intangible Assets	1.1	(0.2)	**0.9**	-	-	-	-	-	-	(0.2)	0.8	(0.1)	1.9	(0.5)	**1.4**
Heritage Assets	11.5	-	**11.5**	-	-	-	-	-	-	-	-	-	11.5	-	**11.5**
Total	**2,803.1**	**(1,193.1)**	**1,610.0**	**111.0**	**(37.0)**	**8.4**	**8.6**	**0.5**	**(12.0)**	**(57.7)**	**(323.5)**	**314.2**	**2,562.2**	**(939.7)**	**1,622.5**

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. No depreciation is charged for Investment Properties, Heritage Assets or Land.

Revaluation

During 2012/2013 the council re-valued a number of assets. The effective date of this revaluation was 1 April 2012. 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 2012/13, infrastructure, community assets, and assets under construction are valued at depreciated historical cost. All other classes of asset are measured at fair value. For vehicles, plant, furniture and equipment fair value is determined by depreciated historical cost due to the short useful life of these assets (2- 7 years depending on the asset). The fair value of council dwellings is measured using existing use value (social housing). For all other asset classes, where there is no market based evidence of fair value the council estimates fair value using the depreciated replacement cost approach. 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 depreciated historical cost due to the short useful life of the asset.
Infrastructure Assets	Depreciated historical cost.
Community Assets	Depreciated historical cost or valuation.
Surplus Assets	Fair value 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) and subsequently measured at fair value
Intangible Assets	Amortised Cost
Heritage Assets	Where the council has information on the cost or value of the asset, the asset is recognised at this amount.

Inspection

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 2013, the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/2014 and future years with an estimated total value of £100.9M (31 March 2012: £59.4M). The major commitments are: Building Schools for the Future (£67.5M), i54 (£17.6M) and Decent Homes (£10.6M).

Investment Properties

During the year the council had £1.0M of income receivable from investment properties (2011/2012: £1.6M) and spent £0.1M on managing and maintaining those properties (2011/2012: £0.2M). 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 2012/2013, the council identified a number of impairments as part of the regular review of its properties under the five-year revaluation cycle. The total value of those impairments was £71.0M. There were no impairments that were individually material during 2012/2013.

Capital Financing Requirement

The council's capital financing requirement, which represents the underlying need to borrow to pay for past capital expenditure, was £685.8M at 31 March 2013 (31 March 2012: £720.6M).

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. During the year the council contributed £3.7M which was a contribution rate of 14.1% (2011/2012: £3.7M; 14.1%).

- 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:

2011/2012 LGPS £M	2011/2012 Teachers £M		2012/2013 LGPS £M	2012/2013 Teachers £M
		COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		
		Cost of Services:		
(20.4)	-	- Current service cost	(21.6)	-
(0.1)	-	- Past service costs	(0.2)	-
(1.2)	(0.2)	- Settlements and curtailments	2.1	(0.1)
		Financing and Investment Income and Expenditure:		
(53.7)	(2.8)	- Interest cost	(51.8)	(2.4)
44.7	-	- Expected return on scheme assets	40.4	-
(30.7)	**(3.0)**	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**(31.1)**	**(2.5)**
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
(66.7)	(1.8)	- Actuarial gains and losses	(94.9)	(7.1)
(97.4)	**(4.8)**	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**(126.0)**	**(9.6)**
		MOVEMENT IN RESERVES STATEMENT		
(30.7)	(3.0)	- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(31.1)	(2.5)
		Actual amount charged against the General Fund Balance for pensions in the year:		
23.0		- Employer's contributions payable to scheme	23.4	
	3.7	- Retirement benefits payable to pensioners		3.7
(7.7)	**0.7**	**Total Movement in Reserves**	**(7.7)**	**1.2**

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:

2011/2012 LGPS £M	Assets	2012/2013 LGPS £M
667.0	**Opening balance at 1 April**	**675.0**
44.7	Expected rate of return	40.4
(29.9)	Actuarial gains and losses	41.9
23.0	Employer contributions	23.4
7.5	Contributions by scheme participants	7.3
(36.8)	Benefits paid	(38.3)
-	Entity combinations	-
(0.5)	Settlements	(1.8)
675.0	**Closing balance at 31 March**	**747.9**

2011/2012 Funded: LGPS £M	2011/2012 Unfunded: LGPS £M	2011/2012 Unfunded: Teachers £M	Liabilities	2012/2013 Funded: LGPS £M	2012/2013 Unfunded: LGPS £M	2012/2013 Unfunded: Teachers £M
(951.0)	**(31.0)**	**(52.9)**	**Opening balance at 1 April**	**(1,043.0)**	**(21.4)**	**(54.0)**
(20.4)	-	-	Current service cost	(21.6)	-	-
(52.1)	(1.6)	(2.8)	Interest cost	(50.8)	(1.0)	(2.4)
(7.5)	-	-	Contributions - participants	(7.3)	-	-
(36.1)	(0.7)	(1.8)	Actuarial gains and losses	(135.0)	(1.8)	(7.0)
35.2	1.6	3.7	Benefits paid	36.7	1.6	3.7
(0.1)	-	-	Past service costs	(0.2)	-	-
-	-	-	Entity combinations	-	-	-
(1.9)	-	(0.2)	Curtailments	(1.2)	-	(0.1)
(9.1)	10.3	-	Settlements	5.1	-	-
(1,043.0)	**(21.4)**	**(54.0)**	**Closing balance at 31 March**	**(1,217.3)**	**(22.6)**	**(59.8)**

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 £82.3M (2011/2012: (£14.8M).

Scheme History

2008/2009 £M	2009/2010 £M	2010/2011 £M	2011/2012 £M		2012/2013 £M
				Present value of liabilities	
(743.7)	(1,026.7)	(981.9)	(1,064.3)	Local Government Pension Scheme	(1,239.9)
(44.9)	(53.5)	(52.9)	(54.0)	Discretionary Benefits	(59.8)
(788.6)	**(1,080.2)**	**(1,034.8)**	**(1,118.3)**	**Sub Total**	**(1,299.7)**
474.6	**615.2**	**667.0**	**674.9**	**Fair Value of Assets in the Local Government Pension Scheme**	**747.9**
				Surplus/(deficit) in the scheme	
(269.2)	(411.5)	(314.9)	(389.4)	Local Government Pension Scheme	(492.0)
(44.8)	(53.5)	(52.9)	(54.0)	Discretionary Benefits	(59.8)
(314.0)	**(465.0)**	**(367.8)**	**(443.4)**	**Total**	**(551.8)**

The liabilities show the underlying commitments that the council has in the long run to pay post-employment (retirement) benefits. The total liability of £551.8M has a substantial impact on the net worth of the council as recorded in the Balance Sheet, reducing it from £922.5M to £370.8M. 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 2014 is £23.6M. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2014 are £3.7M.

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.

2011/2012 LGPS	Teachers		2012/2013 LGPS	Teachers
		Long-term expected rate of return on assets in the scheme:		
7.00%	n/a	Equity investments	7.00%	n/a
3.10%	n/a	Government Bonds	2.8%	n/a
4.10%	n/a	Other Bonds	3.9%	n/a
6.00%	n/a	Property	5.7%	n/a
0.50%	n/a	Cash/current assets	0.5%	n/a
7.00%	n/a	Other	7.00%	n/a
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
21.70	21.70	- Men	22.10	22.10
24.30	24.30	- Women	24.80	24.80
		Longevity at 65 for future pensioners:		
23.10	n/a	- Men	23.90	n/a
25.90	n/a	- Women	26.70	n/a
2.50%	2.30%	Rate of inflation	2.40%	2.40%
4.25%	-	Rate of increase in salaries	4.15%	-

2011/2012			2012/2013	
LGPS	Teachers		LGPS	Teachers
2.50%	2.30%	Rate of increase in pensions	2.40%	2.40%
4.90%	4.60%	Rate for discounting scheme liabilities	4.20%	3.70%
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 2012 %		31 March 2013 %
55	Equity Investments	42
11	Government Bonds	9
8	Other Bonds	12
10	Property	9
1	Cash/Current Assets	2
15	Other	26
100	**TOTAL**	**100**

<u>History of Experience Gains and Losses</u>

The actuarial gains identified as movements on the Pensions Reserve in 2012/2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

2008/2009 %	2009/2010 %	2010/2011 %	2011/2012 %		2012/2013 %
				Local Government Pension Scheme	
(33.5)	(18.7)	(1.2)	(4.4)	- Differences between the expected and actual return on assets	5.6
-	-	(2.9)	-	- Experience gains and losses on liabilities	-
				Teachers Discretionary Pension Scheme:	
-	-	(2.4)	-	- Experience gains and losses on liabilities	-

Analysis of Group Net Pension Liability

The following table analyses the net liability for the group.

31 March 2012 Local Government Pension Scheme £M	31 March 2012 Discretionary Pension Scheme £M		31 March 2013 Local Government Pension Scheme £M	31 March 2013 Discretionary Pension Scheme £M
		Estimated Liabilities in Scheme		
(1,064.3)	*(54.0)*	*Wolverhampton City Council*	*(1,239.9)*	*(59.8)*
(100.6)	-	*Wolverhampton Homes Limited*	*(122.1)*	-
(1,164.9)	***(54.0)***	***Total Liabilities***	***(1,362.0)***	***(59.8)***
		Estimated Assets in Scheme		
675.0	-	*Wolverhampton City Council*	*747.9*	-
82.0	-	*Wolverhampton Homes Limited*	*93.8*	-
757.0	**-**	***Total Assets***	***841.7***	**-**
(407.9)	***(54.0)***	***Net Liabilities***	***(520.3)***	***(59.8)***

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.

2011/2012					2012/2013			
Amounts Payable		Amounts Receivable			Amounts Payable		Amounts Receivable	
Finance Leases £M	Operating Leases £M	Finance Leases (Restated) £M	Operating Leases (Restated) £M		Finance Leases £M	Operating Leases £M	Finance Leases £M	Operating Leases £M
0.4	0.6	-	2.5	Payable/receivable in the year	0.5	0.8	-	3.4
0.4	0.6	-	2.0	Due within one year	0.1	0.6	-	2.3
0.2	1.6	-	5.9	Due in one to five years	0.2	1.5	-	6.1
-	0.7	4.4	27.7	Due after five years	-	0.6	6.0	26.7
0.6	**2.9**	**4.4**	**35.6**	**Total due in future years**	**0.3**	**2.7**	**6.0**	**35.1**

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

31 March 2012 £M		31 March 2013 £M
0.7	Vehicles, Plant, Furniture and Equipment	0.5
0.7	**Total**	**0.5**

Note 7B – Private Finance Initiative and Similar Contracts

The council has three contracts which are PFIs or similar in nature and which are accounted for as 'on balance sheet': the Bentley Bridge leisure centre, the waste disposal facility, and Highfields and Penn Fields School.

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 Limited 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 2013/2014	0.3	0.9	0.2	**1.4**
Payable within two to five years	1.5	3.4	0.9	**5.8**
Payable within six to ten years	2.0	3.8	1.4	**7.2**
Payable within eleven to fifteen years	2.4	3.3	1.5	**7.2**
Payable within sixteen to twenty years	2.0	2.4	2.8	**7.2**
Payable within twenty-one to twenty-five years	1.3	0.7	3.3	**5.3**
Total	**9.5**	**14.5**	**10.1**	**34.1**

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 2012 £M	Depreciation £M	Capital Expenditure /Principal Redemption £M	Balance at 31 March 2013 £M
Property, Plant and Equipment	11.3	(0.4)	-	**10.9**
Long-term Liability	(9.2)	-	0.2	**(9.0)**
Total	**2.1**	**(0.4)**	**0.2**	**1.9**

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 Limited (WWS). The main income stream for WWS is the 'gate fee' paid by the council, which is based on the total tonnage of weight delivered to the facility for disposal. In addition to this, WWS generate a significant proportion of their turnover from the sale of electricity generated at the facility. The total amount payable by the council over the life of the contract is estimated to be £155.6M. 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 2013/2014	6.0	0.8	0.9	**7.7**
Payable within two to five years	26.9	2.2	4.6	**33.7**
Payable within six to ten years	23.4	0.7	4.4	**28.5**
Total	**56.3**	**3.7**	**9.9**	**69.9**

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 2012 £M	Depreciation/ Amortisation £M	Capital Expenditure /Principal Redemption £M	Balance at 31 March 2013 £M
Property, Plant and Equipment	11.1	(1.2)	-	9.9
Deferred Income	(3.1)	0.3	-	(2.8)
Long-term Liability	(10.8)	-	0.9	(9.9)
Total	**(2.8)**	**(0.9)**	**0.9**	**(2.8)**

Highfields & Penn Fields School: As part of the Building Schools for the Future Programme the council entered in to a PFI contract for the construction and management of a new building for the Highfields Specialist Science College and Penn Fields Special School. The construction of the new building cost £47.8M. The total amount payable by the council over the life of the contract is estimated to be £196.8M. 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 2013/2014	1.8	4.8	0.5	**7.1**
Payable within two to five years	7.7	18.8	2.7	**29.2**
Payable within six to ten years	10.5	21.5	5.8	**37.8**
Payable within eleven to fifteen years	11.7	18.4	9.2	**39.3**
Payable within sixteen to twenty years	14.5	12.4	14.3	**41.2**
Payable within twenty-one to twenty-five years	15.6	4.5	18.0	**38.1**
Total	**61.8**	**80.4**	**50.5**	**192.7**

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 2012 £M	Depreciation £M	Capital Expenditure /Recognition of Liability £M	Balance at 31 March 2013 £M
Property, Plant and Equipment	-	-	47.8	**47.8**
Long-term Liability	-	-	(45.7)	**(45.7)**
Total	**-**	**-**	**2.1**	**2.1**

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 2012					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				
1.0	61.0	1.0	61.0	Loans and Receivables	1.5	74.2	1.5	74.2
-	-	-	-	Available-for-sale Financial Assets	-	-	-	-
18.6	-	18.6	-	Unquoted Equity Investment at Cost	18.6	-	18.6	-
-	2.6	-	2.6	Cash and Cash Equivalents	-	3.5	-	3.5
19.6	**63.6**	**19.6**	**63.6**	**Total Financial Assets**	**20.1**	**77.7**	**20.1**	**77.7**
				Financial Liabilities				
(532.1)	(100.8)	(569.0)	(100.9)	Financial Liabilities at Amortised Cost	(588.3)	(120.4)	(644.6)	(122.2)
(532.1)	**(100.8)**	**(569.0)**	**(100.9)**	**Total Financial Liabilities**	**(588.3)**	**(120.4)**	**(644.6)**	**(122.2)**
(512.5)	**(37.2)**	**(549.4)**	**(37.3)**	**Net Financial Liabilities**	**(568.2)**	**(42.7)**	**(624.5)**	**(44.5)**

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

2011/2012					2012/2013			
Financial Assets: Loans and Receivables	Financial Assets: Unquoted Equity Investment at Cost	Financial Liabilities Measured at Amortised Cost	Total		Financial Assets: Loans and Receivables	Financial Assets: Unquoted Equity Investment at Cost	Financial Liabilities Measured at Amortised Cost	Total
£M	£M	£M	£M		£M	£M	£M	£M
-	-	28.2	**28.2**	Interest Expense	-	-	25.4	**25.4**
(0.7)	-	-	**(0.7)**	Interest Income	(0.4)	-	-	**(0.4)**
-	(1.8)	-	**(1.8)**	Revaluation Gain	-	-	-	**-**
(0.7)	**(1.8)**	**28.2**	**25.7**	**Net (Income)/Expense**	**(0.4)**	**-**	**25.4**	**25.0**

The council holds a small amount of HM 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.

Note 7D – Risks Arising from Financial Instruments

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

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

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

Credit and Counterparty Risk Management

The security of principal sums invested is the council's top priority when making investment decisions: accordingly it only places sums with institutions for whom credit risk is assessed as very low. 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 2013 was £74.2M (31 March 2012: £61.0M). This relates entirely to Loans and Receivables. The council does not hold any collateral in respect of these amounts.

Collateral and Other Credit Enhancements Obtained

The council did not obtain any collateral or other credit enhancements during 2012/13 or 2011/12.

Liquidity Risk Management

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

Analysis of External Borrowing Financial Liabilities by Maturity Date

2011/2012 £M	Time until Repayment	2012/2013 £M
8.9	Payable next year	39.0
92.2	Payable within two to five years	103.2
-	Payable within six to ten years	10.2
29.3	Payable within eleven to fifteen years	22.6
16.8	Payable within sixteen to twenty years	13.3
-	Payable within twenty-one to twenty-five years	31.0
31.0	Payable within twenty-six to thirty years	39.9
44.3	Payable within thirty-one to thirty-five years	31.9
27.5	Payable within thirty-six to forty years	53.2
97.6	Payable within forty-one to forty-five years	44.3
26.6	Payable within forty-six to fifty years	26.6
103.8	Payable within fifty-one to sixty years	103.8
478.0	**Total**	**519.0**

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 2012/2013, the council's interest payable would have increased by £4.8M, and its interest receivable would have increased by £0.3M, resulting in an increase in net expenditure of £4.5M. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £4.5M.

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 £18.6M 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 Limited. Wolverhampton Homes Limited is an arm's length management organisation (ALMO) which was established in 2005 to manage and maintain most of the council's housing stock, 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 Limited's main income stream comes from the council, in the form of a management fee for housing management and maintenance which amounted to £38.0M in 2012/2013 (2011/2012: £37.9M). There are a number of other transaction streams between the two entities, including capital works carried out by Wolverhampton Homes Limited for the council, support services provided by the council, and premises leases payable by Wolverhampton Homes Limited. Payments by the council to Wolverhampton Homes Limited amounted to £45.2M in 2012/2013 (2011/2012: £45.8M), whilst payments by Wolverhampton Homes Limited to the council totalled £5.0M (2011/2012: £4.2M). At the year end, Wolverhampton Homes Limited owed the council £1.2M (2011/2012: £2.1M), and the council owed Wolverhampton Homes Limited £1.8M (2011/2012: £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. The following table provides details of the grants received from Central Government.

2011/2012 £M	Grant	2012/2013 £M
(179.2)	Dedicated Schools Grant	(174.1)
(110.8)	NNDR	(134.2)
(57.5)	Mandatory Rent Allowance	(56.8)
(53.5)	Mandatory Rent Rebates Subsidy	(56.0)
(65.6)	Standards Fund Capital	(54.5)
(27.2)	Council Tax Benefit	(27.6)
-	Decent Homes Backlog Grant	(15.5)
(13.6)	Early Intervention Grant	(13.8)
(14.7)	Section 31 Grant	(13.6)
(10.7)	Learning Disability & Health Reform	(11.0)
(12.3)	6th Form Funding	(9.8)
(3.1)	Housing & Council Tax Benefit Administration	(2.9)
(34.2)	Revenue Support Grant	(2.6)
(1.5)	Adult Community Learning PCDL	(1.5)
(1.2)	Disabled Facilities Grant	(1.3)
(1.1)	Further Education 19+	(1.2)
(0.5)	New Homes Bonus	(1.1)
(2.3)	Council Tax Freeze Grant	(0.2)
(1.2)	School Standards Grant	-
(1.0)	Future Jobs Fund	-
(7.7)	Other grants (each less than £1.0M)	(7.6)
(598.9)	**Total**	**(585.3)**

Members

Members of the council have direct control over the council’s financial and operating policies. The total of members’ allowances paid during the year is shown in Note 2C. The register of members’ interests is available on the council’s website:
http://www2.wolverhampton.gov.uk/council/councillors/name

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.

2011/2012			2012/2013	
Expenditure £M	Income £M	Entity and Nature of Relationship	Expenditure £M	Income £M
-	(0.7)	Birmingham Airport Holdings Limited The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. In 2012/2013 the council received a preference dividend of £0.1M, ordinary dividend of £0.5M and rental income of £0.1M.	-	(0.7)
0.5	-	Wolverhampton Grand Theatre Limited 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	-
-	-	Wolverhampton Schools' Improvement Partnership The Wolverhampton Schools' Improvement Partnership is a company limited by guarantee established to advance educational opportunities and outcomes for children and young people in Wolverhampton. The board of directors comprises of representatives from each school cluster and phase and the senior substantive council officer for schools.	1.2	(1.2)
0.2	-	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	-
-	-	i54 The council is party to a joint venture with Staffordshire County Council for the development of i54 at Wobaston Road, Wolverhampton.	5.6	(1.7)
		Entities in which Members have declared an interest:		
14.0	(0.8)	West Midlands Integrated Transport Authority	13.6	(0.4)
12.2	-	West Midlands Police Authority	6.7	(0.1)
3.5	-	West Midlands Fire Service	3.4	-
1.3	-	City of Wolverhampton College	0.2	-

2011/2012 Expenditure £M	2011/2012 Income £M	Entity and Nature of Relationship	2012/2013 Expenditure £M	2012/2013 Income £M
0.8	-	North East Wolverhampton Academy	0.2	(0.2)
0.4	-	Mencap	0.2	-
0.4	-	Black Country Housing Group	0.1	-
0.4	-	All Saints Action Network	0.3	-
0.3	-	Southwest and Bilston Academy	0.2	-
0.2	-	Heath Park High School	0.2	(0.2)
0.2	-	Wolverhampton Network Consortium	-	-
0.5	-	Wolverhampton Citizens Advice Bureau	0.4	-
0.2	-	Heath Town Senior Citizens Welfare Project	0.1	-

Note 9 – Trust Funds

Wolverhampton City Council acts as a trustee for a number of 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.

2011/2012				2012/2013		
Income £000	Expenditure £000	Fund Value at 31 March 2012 £000	Fund Name and Purpose	Income £000	Expenditure £000	Fund Value at 31 March 2013 £000
-	-	29	**Greenway Benefaction** Established for the convalescence, enjoyment, pleasure and amusement of poor children of Bradley.	-	-	29
1	-	42	**Springfield Reading Room** In its capacity as trustee, the council is authorised to apply income in various ways.	-	-	42
-	-	16	**Butler Bequest Music in the Parks** To provide music in the parks.	-	-	16
1	**-**	10	**International Youth Exchange** Created to support international exchange programmes.	**-**	**-**	10
-	**-**	19	**Other Smaller Funds**	**-**	**-**	19
1	**-**	**116**	**Total**	**-**	**-**	**116**

Note 10 – Reconciliation of the Financial Statements to the 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.

2011/2012 £M	*Category*	*2012/2013 £M*
(362.1)	*Fees, charges and other service income*	*(266.4)*
(1.4)	*Interest and investment income*	*(1.1)*
(93.1)	*Income from council tax*	*(93.7)*
(630.7)	*Government grants and contributions*	*(575.7)*
294.3	*Employee expenses*	*286.1*
666.0	*Other service expenses*	*560.5*
54.7	*Depreciation, amortisation and impairment*	*111.8*
28.2	*Interest payments*	*25.4*
13.6	*Precepts and levies*	*13.4*
2.4	*Payments to the national housing capital receipts pool*	*1.5*
-	*Loss on the disposal of non-current assets*	*-*
(28.1)	***(Surplus) or deficit on the provision of services***	***61.8***

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, as shown in the segmental analysis in Note 1.

2011/2012 £M		2012/2013 £M
(6.7)	*(Surplus) or deficit on the provision of services*	*89.4*
18.8	*Less: items included in the segmental analysis but not included in the Comprehensive Income and Expenditure Statement*	*(78.9)*
2.5	*Less: Surplus or (deficit) attributable to subsidiaries*	*(1.4)*
14.6	***Deficit for the year***	***9.1***

The table below shows the adjustments needed to get from the net cost 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, as shown in the segmental analysis in Note 1.

2011/2012 £M		2012/2013 £M
219.5	*Net Cost of Services*	*320.9*
(207.4)	*Less: items included in the segmental analysis but not included in the Net Cost of Services*	*(310.4)*
2.5	*Less: Surplus or (deficit) attributable to subsidiaries*	*(1.4)*
14.6	***Deficit for the year***	***9.1***

10B – Detailed Analysis of Movement in Reserves Statement:

2012/2013 Part 1 – Usable Reserves

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
	£M	£M	£M	£M	£M	£M	£M	£M
Balance Brought Forward	**(19.5)**	**(83.6)**	**(10.5)**	**-**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**
Surplus or Deficit on Provision of Services	**97.3**	**-**	**(9.3)**	**-**	**-**	**-**	**-**	**88.0**
Other Comprehensive Income and Expenditure								
Revaluations - Gains and losses	-	-	-	-	-	-	-	**-**
Gains on Available-for-Sale Financial Assets	-	-	-	-	-	-	-	**-**
Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition	-	-	-	-	-	-	-	**-**
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	-	-	**-**
Total Comprehensive Income and Expenditure	**97.3**	**-**	**(9.3)**	**-**	**-**	**-**	**-**	**88.0**
Adjustments between Accounting Basis & Funding Basis under Regulations								
Depreciation, amortisation & impairment of non-current assets	(111.8)	-	-	-	(22.0)	-	-	**(133.8)**
Difference between HRA depreciation and Major Repairs Allowance	-	-	-	-	-	-	-	**-**
HRA Share of Contribution to Pension Reserve	-	-	-	-	-	-	-	**-**
Movement in the market value of Investment Properties	-	-	-	-	-	-	-	**-**
Revenue Expenditure Funded from Capital under Statute	(61.7)	-	-	-	-	-	-	**(61.7)**
Net Gain/Loss on sale of non-current assets (net book value of assets)	(32.1)	-	(4.8)	-	-	-	-	**(36.9)**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	4.0	-	5.5	-	-	(9.0)	-	**0.5**
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	(0.3)	-	-	-	-	-	-	**(0.3)**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	(0.4)	-	-	-	-	-	-	**(0.4)**

2012/2013 Part 1 – Usable Reserves (Continued)

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
	£M	£M	£M	£M	£M	£M	£M	£M
Net Charges made for retirement benefits in accordance with IAS 19	(33.6)	-	-	-	-	-	-	**(33.6)**
Capital Expenditure charged in the year to the General Fund	0.2	-	-	-	-	-	-	**0.2**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	(1.5)	-	-	-	-	1.5	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	27.2	-	-	-	-	-	-	**27.2**
Transfers of HRA Balance								**-**
Reversal of financing of unequal pay back provision								**-**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	-	-	-	-	117.9	**117.9**
Capital grants and contributions unapplied credited to CIES	113.4	-	-	-	-	-	(113.4)	**-**
Movement in the Donated Assets Account	-	-	-	-	-	-	-	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.7)	-	-	-	-	-	-	**(0.7)**
Capital Expenditure Financed from UCR	-	-	-	-	-	4.3	-	**4.3**
Other income that cannot be credited to the General Fund	0.3	-	-	-	-	-	-	**0.3**
Revenue provision for the repayment of debt	25.6	-	14.3	-	-	-	-	**39.9**
Transfer of HRA Settlement Receipts to UCR	-	-	-	-	-	-	-	**-**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	-	-	17.5	-	-	**17.5**
Net Increase/Decrease before Transfers & Other Movements	**25.9**	**-**	**5.7**	**-**	**(4.5)**	**(3.2)**	**4.5**	**28.4**
Transfers to/from other Earmarked Reserves	(22.3)	22.5	(0.2)	-	-	-	-	**-**
Balance Carried Forward	**(15.9)**	**(61.1)**	**(5.0)**	**-**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**

2012/2013 Part 2 – Unusable Reserves and Reserves of Subsidiary

	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	*Reserves of Subsidiary*	*TOTAL (Group)*
	£M	£M	£M	£M	£M	£M	£M	£M	*£M*	*£M*
Balance Brought Forward	**6.2**	**(12.1)**	**(603.8)**	**0.1**	**2.9**	**443.4**	**(275.2)**	**(438.5)**	***12.6***	***(583.1)***
Surplus or Deficit on Provision of Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***1.4***	***89.4***
<u>Other Comprehensive Income and Expenditure</u>										
Revaluations - Gains and losses	-	-	-	-	-	-	35.0	**35.0**	-	***35.0***
Gains on Available-for-Sale Financial Assets	-	-	-	-	-	-	-	**-**	-	***-***
Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition	-	-	-	-	-	-	-	**-**	-	***-***
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	101.9	-	**101.9**	8.8	***110.7***
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**101.9**	**35.0**	**136.9**	***10.2***	***235.1***
<u>Adjustments between Accounting Basis & Funding Basis under Regulations</u>										
Depreciation, amortisation & impairment of non-current assets	-	-	119.6	-	-	-	14.2	**133.8**	-	***-***
Difference between HRA depreciation and Major Repairs Allowance	-	-	-	-	-	-	-	**-**	-	***-***
HRA Share of Contribution to Pension Reserve	-	-	-	-	-	-	-	**-**	-	***-***
Movement in the market value of Investment Properties	-	-	-	-	-	-	-	**-**	-	***-***
Revenue Expenditure Funded from Capital under Statute	-	-	61.7	-	-	-	-	**61.7**	-	***-***
Net Gain/Loss on sale of non-current assets (net book value of assets)	-	-	25.4	-	-	-	11.5	**36.9**	-	***-***
Net Gain/Loss on sale of non-current assets (disposal proceeds)	-	-	(0.5)	-	-	-	-	**(0.5)**	-	***-***
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	-	-	-	-	0.3	-	-	**0.3**	-	***-***
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	-	-	-	0.4	-	-	-	**0.4**	-	***-***

2012/2013 Part 2 – Unusable Reserves and Reserves of Subsidiary (Continued)

	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	*Reserves of Subsidiary £M*	*TOTAL (Group) £M*
Net Charges made for retirement benefits in accordance with IAS 19	-	-	-	-	-	33.6	-	**33.6**	-	-
Capital Expenditure charged in the year to the General Fund	-	-	(0.2)	-	-	-	-	**(0.2)**	-	-
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	-	-	-	-	-	(27.2)	-	**(27.2)**	-	-
Transfers of HRA Balance	-	-	-	-	-	-	-	**-**	-	-
Reversal of financing of unequal pay back provision	-	-	-	-	-	-	-	**-**	-	-
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	(117.9)	-	-	-	-	**(117.9)**	-	-
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	-	-	**-**	-	-
Movement in the Donated Assets Account	-	-	-	-	-	-	-	**-**	-	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.7	-	-	-	-	-	-	**0.7**	-	-
Capital Expenditure Financed from UCR	-	-	(4.3)	-	-	-	-	**(4.3)**	-	-
Other income that cannot be credited to the General Fund	-	-	(0.3)	-	-	-	-	**(0.3)**	-	-
Revenue provision for the repayment of debt	-	-	(39.9)	-	-	-	-	**(39.9)**	-	-
Transfer of HRA Settlement Receipts to UCR	-	-	-	-	-	-	-	**-**	-	-
Use of Major Repairs Allowance to Finance Capital Spend	-	-	(17.5)	-	-	-	-	**(17.5)**	-	-
Net Increase/Decrease before Transfers & Other Movements	**0.7**	**-**	**26.1**	**0.4**	**0.3**	**108.3**	**60.7**	**196.5**	***10.2***	***235.1***
Transfers to/from other Earmarked Reserves	-	-	-	-	-	-	-	**-**	-	-
Balance Carried Forward	**6.9**	**(12.1)**	**(577.7)**	**0.5**	**3.2**	**551.7**	**(214.5)**	**(242.0)**	***22.8***	***(348.0)***

2011/2012 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	**47.1**	**-**	**(51.3)**	**-**	**-**	**-**	**(4.2)**
Other Comprehensive Income and Expenditure							
Revaluations - Gains and losses	-	-	-	-	-	-	**-**
Gains on Available-for-Sale Financial Assets	-	-	-	-	-	-	**-**
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	-	**-**
Total Comprehensive Income and Expenditure	**47.1**	**-**	**(51.3)**	**-**	**-**	**-**	**(4.2)**
Adjustments between Accounting Basis & Funding Basis under Regulations							
Depreciation, amortisation & impairment of non-current assets	(49.6)	-	(5.1)	(15.0)	-	-	**(69.7)**
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	(58.7)	-	-	-	-	-	**(58.7)**
Net Gain/Loss on sale of non-current assets (net book value of assets)	(26.2)	-	(1.8)	-	-	-	**(28.0)**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	2.1	-	4.9	-	(6.4)	-	**0.6**
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)**

2011/2012 Part 1 – Usable Reserves (Continued)

	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
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	20.3	(20.1)	(0.2)	-	-	-	**-**
Balance Carried Forward	**(19.5)**	**(83.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**

2011/2012 Part 2 – Unusable Reserves and Reserves of Subsidiary

	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	*Reserves of Subsidiary*	*TOTAL (Group)*
	£M	£M	£M	£M	£M	£M	£M	£M	*£M*	*£M*
Balance Brought Forward	**5.3**	**(10.4)**	**(586.7)**	**(1.2)**	**3.0**	**367.8**	**(275.3)**	**(497.5)**	***11.6***	***(637.5)***
Surplus or Deficit on Provision of Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***(2.5)***	***(6.7)***
Other Comprehensive Income and Expenditure										
Revaluations - Gains and losses	-	-	-	-	-	-	(9.2)	**(9.2)**	-	***(9.2)***
Gains on Available-for-Sale Financial Assets	-	(1.7)	-	-	-	-	-	**(1.7)**	-	***(1.7)***
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	68.5	-	**68.5**	*3.5*	***72.0***
Total Comprehensive Income and Expenditure	**-**	**(1.7)**	**-**	**-**	**-**	**68.5**	**(9.2)**	**57.6**	***1.0***	***54.4***
Adjustments between Accounting Basis & Funding Basis under Regulations										
Depreciation, amortisation & impairment of non-current assets	-	-	60.9	-	-	-	8.8	**69.7**	-	**-**
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	-	-	58.7	-	-	-	-	**58.7**	-	**-**
Net Gain/Loss on sale of non-current assets (net book value of assets)	-	-	27.5	-	-	-	0.5	**28.0**	-	**-**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	-	-	(0.6)	-	-	-	-	**(0.6)**	-	**-**
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**	-	**-**

2011/2012 Part 2 – Unusable Reserves and Reserves of Subsidiary (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	*Reserves of Subsidiary*	*TOTAL (Group)*
	£M	£M	£M	£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	-	-	-	-	-	-	-	**-**	-	**-**
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	-	-	-	-	-	-	-	**-**	-	**-**
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**	**(1.7)**	**(17.1)**	**1.3**	**(0.1)**	**75.6**	**0.1**	**59.0**	***1.0***	***54.4***
Transfers to/from other Earmarked Reserves								**-**	-	**-**
Balance Carried Forward	**6.2**	**(12.1)**	**(603.8)**	**0.1**	**2.9**	**443.4**	**(275.2)**	**(438.5)**	***12.6***	***(583.1)***

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.
Earmarked Reserves	Earmarked Reserves represent amounts that the council has chosen to set aside to fund specific items of expenditure in the future.
Capital	
Major Repairs Reserve	The council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capital Grants Unapplied Account	The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Name of Reserve	Description
Unusable Reserves	
Revaluation Reserve	The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are 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 2012/2013 financial year and its position at 31 March 2013. 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 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS). These policies have been applied consistently throughout the year. These accounts have been prepared on a going concern basis.

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 receivable or payable for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of receivables 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 highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 non-current assets during the year:

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

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

7. Employee Benefits

Benefits Payable During Employment - 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.

Termination Benefits - Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, 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 Education and Children’s 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

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 fund in settlement of liabilities, not accounted for as an expense.

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

Discretionary Benefits - The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) 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. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

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

Statement is the amount receivable for the year in the loan agreement.

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

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 payables. 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 re-valued 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 Limited), 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.

<u>The Council as Lessee: Finance Leases</u> - 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.

<u>The Council as Lessee: Operating leases</u> - 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).

<u>The Council as Lessor: Finance Leases</u> - Where the council grants a finance lease over a property or an item of plant or equipment the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain representing the council's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term receivable) asset in the Balance Sheet.

Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property - applied to write down the lease receivable (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 receivable. 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 2012/13 (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, subject to a de-minimis value of £100,000 for land and property and heritage assets and £10,000 for new vehicles, plant and equipment. The council does not capitalise borrowing costs incurred whilst assets are under construction.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction - depreciated historical cost;
- Dwellings - 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.

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

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

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

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

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

Depreciation is calculated on the following bases:

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

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals

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, from the council and third parties where relevant, to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI operators each year are analysed into six 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.

- Third party income – credited to the Comprehensive Income and Expenditure Statement, reflecting the extent to which the asset and the service are financed by third party income.

21. Provisions and Contingent Liabilities

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities - A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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 reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

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 included within these accounts. The accounting policies for the pension fund can be found at note P3 in the accounts.

Copies of the fund's Accounts and Annual Report are available on request from the Chief Financial 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 council 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

There have been no changes in accounting policy from 2011/2012.

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

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.

During 2012/2013, the Wolverhampton Schools' Improvement Partnership was established as a company limited by guarantee. The directors of the company are representatives of local schools and the senior substantive council officer for schools. Two councillors are non-voting directors. Whilst in this way the council exerts significant influence over the activities of the company, it has been determined that the transactions and balances of the company are not material to the council's accounts, and it has therefore not been consolidated in the Group Accounts.

The council, along with the other six West Midlands district councils, holds shares in Birmingham 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 or PFI-type contract in three areas: Waste Management, Bentley Bridge Leisure Centre, and Highfields and Penn Fields School. In all three 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.

Property, Plant and Equipment belonging to Voluntary Aided Schools

The council owns land on which a number of voluntary aided 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.

Accounting for the Voluntary Redundancy Programme

The council undertook a voluntary redundancy exercise during 2012/2013, 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 2012/2013 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 2013 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 £22.2M	*Decrease of £24.9M*
Salary Inflation 0.1% p.a. higher	Increase of £22.7M	*Increase of £25.3M*
Life expectancy of scheme members 1 year higher	Increase of £26.2M	*Increase of £28.5M*

Property, Plant and Equipment

In accordance with the requirements of the Code, the council re-values 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 IAS 1 Presentation of Financial Statements (Issued in 2011) but will do so from 1 April 2013. Adoption of the amendments is a presentational issue only and will have no impact on any of the reported amounts in the Comprehensive Income and Expenditure Statement.

In accordance with the Code, the council has not adopted the amendments to IAS 12 Income Taxes (Issued in 2010) but will do so from 1 April 2013. The amendments relate to the calculation of deferred tax relating to assets. The adoption of the amendments will have no impact on the Group Comprehensive Income and Expenditure Statement.

In accordance with the Code, the council has not adopted IFRS 13 Fair Value Measurement, but will do so from 1 January 2013. IFRS 13 aims to provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The application of this standard to local government assets and liabilities will be considered in detail in the development of the 2013/14 Code.

In 2011 amendments were issued to IFRS 7 Financial Instruments. The amendments relate to the offsetting of financial assets and liabilities and will be adopted by the council from 1 April 2013. It is anticipated that the adoption of the amendments will have no impact on the financial statements of the council.

In accordance with the Code, the council has not adopted the amendments to IAS 19 Employee Benefits (Issued in 2011) but will do so from 1 April 2013. The amended requirements relate to the new classes of components of defined benefit cost;

a) Interest cost and expected return on assets are replaced with the net interest cost.
b) Administration expenses are categorised separately
c) Actuarial gains and losses on assets are replaced with re-measurements (assets)
d) Actuarial gains and losses on liabilities are replaced with re-measurements (liabilities)

The following table details the impact of the new classifications on Transactions Relating to Post-employment Benefits as disclosed in Note 6. It is anticipated that the change in requirement will have no impact on the net pension liability.

	2012/2013	
	LGPS	Teachers
	£M	£M
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		
Cost of Services:		
- Current service cost	(22.2)	-
- Past service costs	(0.2)	-
- Settlements and curtailments	2.1	(0.1)
- Administration Expenses	(0.3)	-
Financing and Investment Income and Expenditure:		
- Net Interest cost	(18.4)	(2.4)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**(39.0)**	**(2.5)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
- Re-measurements (liabilities and assets)	(87.0)	(7.0)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(126.0)**	**(9.5)**
MOVEMENT IN RESERVES STATEMENT		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(31.1)	(2.5)

Actual amount charged against the General Fund Balance for pensions in the year:		
- Employer's contributions payable to scheme	23.4	-
- Retirement benefits payable to pensioners	-	3.7
Total Movement in Reserves	**(7.7)**	**1.2**

Housing Revenue Account Income and Expenditure Statement

2011/2012 £M		Notes	2012/2013 £M
(78.9)	Gross Rents - Dwellings		(83.0)
(1.5)	Gross Rents - Non Dwellings		(1.6)
(4.6)	Charges to Tenants for Services and Facilities		(5.0)
(0.1)	Contributions Received		-
(85.1)	**Total Income**		**(89.6)**
25.3	Repairs and Maintenance		26.1
18.0	Supervision and Management		17.3
0.2	Rents, Rates and Taxes		0.2
7.0	Negative HRA Subsidy Payable	**H1**	-
0.8	Increase in Allowance for Bad Debts		0.6
15.7	Depreciation of Property, Plant and Equipment	**H2**	22.6
4.4	Impairment of Property, Plant and Equipment	**H3**	-
71.4	**Total Expenditure**		**66.8**
(13.7)	**Net Cost of HRA Services as Included in Council Comprehensive Income and Expenditure Statement**		**(22.8)**
0.2	HRA Share of Corporate and Democratic Core		0.2
(13.5)	**Net Cost of HRA Services**		**(22.6)**
(3.0)	(Gain) on Sale of Property, Plant and Equipment		(0.7)
-	(Gain) on the Fair Value of Investment Assets		-
13.0	Interest Payable		14.2

2011/2012 £M		Notes	2012/2013 £M
12.0	Premiums and Discounts		-
-	Interest and Investment Income		(0.2)
(59.8)	Capital Grants and Contributions: HRA Self-financing Settlement		-
(51.3)	**Surplus for the Year**		**(9.3)**

Movement on the Housing Revenue Account Balance Statement

2011/2012 £M		Notes	2012/2013 £M
(5.1)	**Opening HRA Balance**		**(10.5)**
	(Increase)/Decrease in the HRA balance for the year analysed between:		
(51.3)	- (Surplus) for the year on the Income and Expenditure Account		(9.3)
45.9	- Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for the year	**H4**	14.8
(5.4)	**(Increase)/Decrease in the HRA balance for the year**		**5.5**
(10.5)	**Closing HRA Balance**		**(5.0)**

Notes to the Housing Revenue Account Statements

Note H1 – Housing Revenue Account Subsidy

2011/2012 £M		2012/2013 £M
	Subsidy claimed in respect of:	
(41.0)	- Management and Maintenance	-
(15.0)	- Major Repairs Allowance	-
(14.6)	- Charges for Capital	-
(70.6)		**-**
	Less:	
-	- Mortgage Interest	-
(77.5)	- Guideline Rent Income	-
(77.5)		**-**
6.9	**Total Subsidy Payable for the Year**	**-**
0.1	Adjustment re Prior Year Subsidy	-
7.0	**Total Subsidy Recognised this Year**	**-**

HRA Subsidy was abolished by the Government on 1 April 2012, meaning that 2011/2012 was the last year for which subsidy was payable.

Note H2 – Depreciation

2011/2012 £M		2012/2013 £M
15.0	Council Dwellings	21.9
0.4	Other Land and Buildings	0.5
0.3	Vehicles, Plant, Furniture and Equipment	0.2
15.7	**Total Depreciation Charge for the Year**	**22.6**

Under the Housing Revenue Account regulations, depreciation and impairment charges (for dwellings only) are reversed out and replaced with MRP.

Note H3 – Impairment

2011/2012 £M		2012/2013 £M
1.4	Council Dwellings	-
3.0	Other Land and Buildings	-
4.4	**Total Impairment Charge for the Year**	**-**

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

2011/2012 £M		Note	2012/2013 £M
45.9	**Net additional amount required to be debited or credited to the HRA Balance**		**14.8**
	Comprising:		
	Amounts included in the Income and Expenditure Account but not in the HRA Balance		
(0.7)	- Excess of HRA depreciation charge over MRA		-
(4.4)	- Impairment of Property, Plant and Equipment	**H3**	-
3.1	- Net Gain on Sale of Property, Plant and Equipment		0.7
59.8	- Capital Grants and Contributions : HRA Self-financing Settlement		-
(12.1)	- Credit from Usable Capital Receipts Reserve : HRA Self-financing Settlement		-
45.7			**0.7**
	Amounts not in the Income and Expenditure Account but included in the HRA Balance		
0.2	- HRA Share of Contribution to Pension Reserve	**H5**	-
0.2	- Amount Set Aside for the Repayment of Debt		14.3
(0.2)	- Transfer to/(from) Earmarked Reserves		(0.2)
0.2			**14.1**
45.9	**Total**		**14.8**

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 2012		31 March 2013
5,050	Low Rise Flats	5,032
3,024	Medium Rise Flats	3,016
2,119	High Rise Flats	2,119
13,211	Houses and Bungalows	13,127
23,404	**Total Dwellings Owned by the Council**	**23,294**
14	Homeless Dwellings (Leased)	14
23,418		**23,308**

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 2012 £M		31 March 2013 £M
672.1	- Council Dwellings	687.8
10.6	- Other Land and Buildings	9.5
0.4	- Vehicles, Plant, Furniture and Equipment	0.2
0.8	- Intangible Assets	0.7
683.9	**Total Property, Plant and Equipment**	**698.2**

Note H8 – The Vacant Possession Value of Dwellings

The vacant possession value of the stock of dwellings at 31 March 2013 (at 1 April 2010 prices) amounted to £2,022.9M (31 March 2012: £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.

2011/2012 £M		2012/2013 £M
	Sources of Funding	
(24.2)	- Borrowing	(1.4)
(2.1)	- Usable Capital Receipts	(1.3)
(14.4)	- Major Repairs Reserve	(17.5)
-	- Government and EU Grants	(20.7)
(0.4)	- Other Grants and Contributions	(0.5)
(41.1)	**Total Capital Expenditure**	**(41.4)**

Capital receipts generated during 2012/2013 from the disposal of HRA assets are detailed in the following table.

2011/2012 £M		2012/2013 £M
(3.2)	Sale of Council Houses (Right-to-Buy)	(4.7)
(1.6)	Sale of Other Land and Buildings	(0.8)
-	Mortgages Principal Repayments	-
-	Repaid Discounts	-
(4.8)	**Total Capital Receipts**	**(5.5)**

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

2011/2012 £M		2012/2013 £M
(2.4)	Paid over to Government	(1.5)
(2.4)	Available to Finance Capital Expenditure	(4.0)
(4.8)	**Total Capital Receipts**	**(5.5)**

Note H10 – Rent Arrears

During 2012/2013, total rent arrears decreased by £0.1M (5.3%). 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 2012 £M		31 March 2013 £M
1.6	Current Tenants	1.0
0.3	Former Tenants	0.8
1.9	**Total Arrears**	**1.8**

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

2011/2012 £M		2012/2013 £M
1.2	**Allowance for Bad and Doubtful Debts Brought Forward**	**1.5**
(0.5)	Amounts Written Off during the Year	(0.5)
0.8	Increase in Allowance Charged to the HRA during the Year	0.5
1.5	**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.

2011/2012 £M		2012/2013 £M
(4.6)	**Balance Brought Forward**	**(5.2)**
(15.0)	Transfer of MRA from the Capital Adjustment Account	(21.9)
14.4	Capital Expenditure on Land and Property in the HRA	17.5
(5.2)	**Balance Carried Forward**	**(9.6)**

The Collection Fund Statement

2011/2012 £M		Note	2012/2013 £M
(0.9)	**(Surplus) Brought Forward**		**-**
	Income		
(77.5)	Council Tax	**C1**	(78.1)
(27.4)	Transfers from General Fund: Council Tax Benefits		(27.1)
(70.8)	Non Domestic Rates		(72.1)
(175.7)	**Total Income**		**(177.3)**
	Expenditure		
	Precepts and Demands		
93.5	Wolverhampton City Council		94.3
7.1	West Midlands Police		7.1
3.4	West Midlands Fire and Civil Defence		3.4
104.0			**104.8**
	Non Domestic Rates		
67.9	Payment to National Pool	**C2**	70.0
0.4	Cost of Collection Allowance		0.4
-	Interest Payment		-
68.3			**70.4**

8. THE COLLECTION FUND STATEMENT

2011/2012 £M		Note	2012/2013 £M
	Distribution of Council Tax Surplus/(Payment of Deficit)		
0.5	Wolverhampton City Council		-
-	West Midlands Police		-
-	West Midlands Fire and Civil Defence		-
0.5			**-**
	Allowance for Bad and Doubtful Debts		
1.4	Council Tax		0.9
2.4	Non Domestic Rates		1.8
3.8	Total Allowance for Bad and Doubtful Debts		**2.7**
176.6	**Total Expenditure**		**177.9**
0.9	**Deficit for the Year**		**0.6**
-	**Deficit Carried Forward**		**0.6**

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	86	5/9	48	610	813
A	46,857	6/9	31,238	732	976
B	20,268	7/9	15,764	854	1,139
C	14,252	8/9	12,669	976	1,301
D	5,634	9/9	5,633	1,098	1,464
E	2,685	11/9	3,281	1,342	1,789
F	1,533	13/9	2,214	1,586	2,115
G	804	15/9	1,340	1,830	2,440
H	83	18/9	167	2,19	2,928
	92,202		**72,354**		
Add: Additional Band D Equivalent Dwellings from removing 50% Council Tax Discount for owners of long term void homes			13		
Add: Reliefs and deletions			113		
Less: Allowance for collection difficulties (98.75%)			(906)		
Total Band D Tax Base			**71,574**		

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.

2011/2012 £M		2012/2013 £M
82.9	Non Domestic Rateable Value (31 March 2013: £190.5M; 31 March 2012: £191.4M) Multiplied by Uniform Rate for year: (2012/2013: 45.8p; 2011/2012: 43.3p)	87.9
(15.0)	Transitional Surcharges and Adjustments (less Allowances)	(17.9)
67.9	**Contribution to NNDR Pool**	**70.0**

9. WEST MIDLANDS PENSION FUND STATEMENTS

Fund Account

2011/2012 £M		Note	2012/2013 £M
	Contributions & Benefits		
412.7	Contributions Receivable	**P7**	410.9
65.1	Transfers In	**P8**	22.6
16.2	Other Income	**P9**	16.2
494.0	**Total contributions and other income**		**449.7**
469.2	Benefits Payable	**P10**	445.1
41.3	Payments to and on account of leavers	**P11**	15.8
0.3	Other Payments		0.3
5.4	Administration Expenses	**P12**	5.3
516.2	**Total benefits and other expenditure**		**466.5**
(22.2)	**Net additions from dealings with members**		**(16.7)**
	Returns on Investments		
179.4	Investment Income	**P13**	136.8
(72.6)	Changes in Value of Investments		846.0
92.7	Profit and Losses on Disposal of Investments		97.7
(15.6)	Investment Management Expenses	**P12**	(11.3)
183.9	**Net return on investments**		**1,069.2**
161.7	**Net increase in the Fund during the year**		**1,052.5**
8,672.1	**Net Assets of the Fund at the beginning of the year**		**8,833.8**
8,833.8	**Net Assets of the Fund at the end of the year**		**9,886.3**

Net Assets Statement

31 March 2012 £M		Note	31 March 2013 £M
	Investment Assets (at Market Value)	P14	
158.8	Fixed Interest Securities		173.9
861.2	UK Equities		966.6
1,735.6	Overseas Equities		2,021.3
5,236.3	Pooled Investment Vehicles		5,757.5
615.4	Property		567.6
43.7	Foreign Currency Holdings		82.9
139.3	Cash Deposits		241.1
0.2	Other Investments assets		-
11.1	Outstanding dividend entitlement and recoverable with-holding tax		15.4
8,801.6	**Investment Assets**		**9,826.3**
	Investment Liabilities (at Market Value)	P14	
-	Other Investments liabilities		(0.1)
-	**Investment Liabilities**		**(0.1)**
8,801.6	**Net Investment Assets**		**9,826.2**
70.0	**Current Assets**	P17	**73.2**
(37.8)	**Current Liabilities**	P18	**(13.1)**
8,833.8	**Net Assets of the Fund at the end of the year**		**9,886.3**

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 Pensions 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 the 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. This includes:

(i) the LGPS (Benefits, Membership and Contribution) Regulations 2007 (as amended);

(ii) the LGPS (Administration) Regulations 2008 (as amended); and

(iii) the LGPS (Management and Investment of Funds) Regulations 2009.

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions within are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently, employer contribution rates range from 14.7% to 25.3% of pensionable pay.

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index- linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

The Fund's Statement of Investment Principles (SIP) can be found in the Annual Report and on the fund's website: www.wmpfonline.com.

Note P2 – Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2012/2013 financial year and its position at the year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013 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. 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.

2. Fund Account

In the fund account income and expenditure are accounted for in the year in which they arise by the creation of payables and receivables at the year-end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end. (See note P8).

3. 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.

4. 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 2013, calculated in accordance with the Local Government Pension Scheme Regulations (see notes P8 and P11). They are not accounted for on an accruals basis.

5. 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.

6. Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2013 relating to the financial year 2012/2013.

7. 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 2013.

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 2013 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 2013. Agricultural properties were valued by Savills plc, 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 2013 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 2013.

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 £2.2M in 2012/2013 and £7.0M in 2011/2012.

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 2012 M		31 March 2013 M
95.5	Active Members	97.3
75.2	Pensioner Members	77.5
84.5	Deferred Members	86.5

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 2013 was £1,232.0M (£1,099.0M at 31 March 2012).

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 P5. 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. Mercer Limited, 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 2013	Approx % increase in liabilities	Approx monetary value £M
0.5% p.a. decrease in discount rate	9%	1,481.0
1 year increase in member life expectancy	2%	304.0
0.5% p.a. increase in salary increase rate	3%	398.0
0.5% p.a. increase in pensions increase rate*	7%	1,058.0

*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 £1,232.0M. 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 £507.0M. 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 </-£25.0M.

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.

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 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.25% per annum	4.15% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% 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 2012 and 31 March 2013 were £13,226.0M and £15,611.0M respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.), and in addition there was a reduction in inflation expectations (from 2.5% p.a. to 2.4% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS 26 of about £1,765.0M.

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:-

2011/2012 £M		2012/2013 £M
	From Employers	
281.3	Basic Contributions	294.8
6.7	Deficit Funding	-
0.2	Augmented Membership	0.5
13.9	Additional Cost of Early Retirement	8.3
302.1		**303.6**
	From Employees	
109.5	Basic Contributions	106.4
1.1	Additional Contributions	0.9
110.6		**107.3**
412.7	**Total Contributions**	**410.9**

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

During 2011/12 several organisations made small augmented membership payments as one offs to remove liability relating to individual employees who had left their employment.

-One admitted body, BXL Services, went into liquidation with an outstanding liability identified by the actuary of £4.0M. It is anticipated that the Fund will receive in the order of £0.3M 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 £0.1M. The Fund has since recovered £0.03M from the remaining assets.

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

2011/2012 £M		2012/2013 £M
31.0	Administering Authority	30.8
360.4	Scheme Employers	361.4
21.3	Admitted Employers	18.7
412.7	**Total**	**410.9**

Note P8 – Transfers In

2011/2012 £M		2012/2013 £M
65.1	Individual transfers in from other schemes	22.6

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 payment of £3.8M was received on 10 August 2012 to be included in 2012/13.

Note P9 – Other Income

2011/2012 £M		2012/2013 £M
	Benefits Recharged to Employers	
9.3	Compensatory Added Years	9.1
6.9	Pensions Increases	7.1
-	Magistrates Courts Committee	-
16.2	**Total**	**16.2**

Note P10 – Benefits Payable

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

2011/2012 £M		2012/2013 £M
	Pensions	
299.9	Retirement Pensions	328.8
24.4	Widows' Pensions	25.7
0.9	Children's' Pensions	1.0
2.8	Widowers' Pensions	3.1
0.1	Ex-Spouse	0.1
0.1	Equivalent Pension Benefits	0.1
-	Civil Partnership	-
-	Co-habiting Partners	-
328.2	**Total Pensions**	**358.8**
	Lump Sum Benefits	
130.3	Retiring Allowances	74.6
10.7	Death Grants	11.7
141.0	**Total Lump Sum Benefits**	**86.3**
469.2	**Total Benefits Payable**	**445.1**

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

2011/2012 £M		2012/2013 £M
37.5	Administering Authority	38.1
405.1	Scheme Employers	379.7
26.6	Admitted Employers	27.3
469.2	**Total**	**445.1**

Note P11 – Payments To and On Account of Leavers

2011/2012 £M		2012/2013 £M
16.5	Individual transfers out to other schemes	12.8
-	Refunds of Contributions	-
-	State Scheme Premiums	-
24.8	**Bulk Pension Transfer Increases**	**3.0**
41.3	**Total**	**15.8**

The Bulk transfer pension increases payment of £24.8M relates to amounts included within current liabilities at the year end in respect of back payments to cover pre October 1986 pension increase payments between 1995 and 31 March 2012 for former retiring employees of West Midlands Passenger Transport Executives. A payment of £25.1M, including interest, was made in November 2012.

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:

2011/2012 £M		2012/2013 £M
	Administration	
4.9	Pensions Administration	4.8
0.4	Actuarial fees	0.5
0.1	Audit fees	-
-	Legal and other professional fees	-
5.4	**Total Administration**	**5.3**
	Investments	
13.1	External management of investments	8.8
2.2	In-house management of investments	2.1
-	Performance Measurement Service	-
0.1	Property and legal fees	0.1
0.2	Safe Custody Expenses	0.3
15.6	**Total Investments**	**11.3**

The pensions 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 receivable or payable 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 £2.2M in 2012/2013 and £7.0M in 2011/2012.

Note P13 – Investment Income

Investment income is analysed below:-

2011/2012 £M		2012/2013 £M
	Dividends and Interest	
	Fixed Interest Securities	
8.5	UK Private Sector – Quoted	8.5
	Equities	
33.9	UK	33.2
45.9	Overseas	43.6
	Pooled Investment Vehicles	
32.4	UK	22.8
23.0	UK - Re-invested Income, prior years	-
3.3	Overseas Equities	1.8
0.4	Private Equity	0.1
0.7	Interest on Cash Deposits	0.9
1.1	Stock lending	0.9
-	UK Tax, Irrecoverable	-
(2.4)	Overseas Taxation	(1.9)
146.8	**Total Dividends and Interest**	**109.9**
43.0	Property Management Income	35.7
(10.4)	Property Management Expenses	(8.8)
32.6		**26.9**
179.4	**Total Investment Income**	**136.8**

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 £43.9M (2012: £69.6M) in exchange for which the custodian held collateral worth £50.5M (2012: £74.0M). 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 2012 £M		31 March 2013 £M
	Fixed Interest Securities	
158.8	UK Companies – Segregated (external)	173.9
158.8		**173.9**
	UK Equities	
861.2	Quoted	966.6
-	Quoted – Segregated (external)	-
861.2		**966.6**
	Overseas Equities	
1,438.1	Quoted	1662.2
297.5	Quoted – Segregated (external)	359.1
1,735.6		**2,021.3**
	Pooled Investment Vehicles	
	Managed Funds	
188.8	UK Quoted, Fixed Interest	196.4
416.3	Other Fixed Interest	646.4
870.7	UK Quoted, Index Linked	963.2
828.9	Overseas Equities	909.9
232.3	UK Unquoted Equities	255.5
1,339.2	Overseas Unquoted Equities	1,509.7
699.3	UK Absolute Returns	593.0
92.2	Overseas Absolute Returns	105.9

31 March 2012 £M		31 March 2013 £M
32.8	UK Property	37.6
194.6	Foreign Property	225.7
	Unit Trusts	
3.5	UK Quoted Equities	3.6
329.1	Overseas Equities	303.6
8.6	Overseas Property	7.0
5,236.3		**5,757.5**
	Property	
589.1	UK Freehold	532.7
26.3	UK Leasehold*	34.9
615.4		**567.6**
	Foreign Currency Holdings	
29.5	United States Dollars	29.6
1.0	Euro	34.0
1.0	Canadian Dollars	1.5
1.1	Danish Kroner	1.1
1.9	Hong Kong Dollars	0.4
0.4	Swedish Kroner	3.2
0.7	Swiss Francs	4.3
1.1	Japanese Yen	2.0
0.5	Norwegian Kroner	1.2
-	Malaysian Ringits	-
0.6	Singapore Dollars	-
4.2	Australian Dollars	1.1
-	New Zealand Dollars	-
0.6	Hungarian Florints	1.2

31 March 2012 £M		31 March 2013 £M
-	Polish Zloty	0.9
-	Israeli Shekels	-
0.3	Turkish Lira	1.2
0.8	Czech Koruna	1.2
-	Korean Won	-
43.7		**82.9**
	Cash Deposits	
139.3	UK	241.1
	Other Investments	
0.2	Broker Balances	(0.1)
11.1	Outstanding Dividend Entitlement and Recoverable with-holding Tax	15.4
8,801.6	**Total Net Investment Assets**	**9,826.2**

* All leasehold properties are held on long leases

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

31st March 2012			31st March 2013	
Market Value £M	% of total Market Value %		Market Value £M	% of total Market Value %
		Security		
512.6	5.8	Legal & General - All Stocks Index-Linked Gilts Fund	664.0	6.8

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 2012			31 March 2013	
Market Value £M	% of total Market Value %		Market Value £M	% of total Market Value %
3,077.2	35.0	In-house	3497.3	35.6
24.2	0.3	Managers: UK Quoted	26.6	0.3
107.7	1.2	Managers: US Quoted	131.1	1.3
174.9	2.0	Managers: European Quoted	193.3	2.0
34.4	0.4	Managers: Japanese Quoted	37.6	0.4
97.1	1.1	Managers: Pacific Basin	107.4	1.1
556.9	6.3	Managers: Emerging Markets	609.3	6.2
484.5	5.5	Managers: Global Equities	493.9	5.0
1,634.6	18.6	Managers: Fixed Interest	1,979.9	20.2
236.0	2.7	Managers: Indirect Property	270.3	2.8
-	0.0	Managers: Emerging Market Debt	-	0.0
202.7	2.3	Managers: Commodities	206.8	2.1
269.9	3.1	Managers: Infrastructure Funds	326.5	3.3
791.5	9.0	Managers: Absolute Return	698.9	7.1
1,098.9	12.5	Managers: Private Equity	1,231.9	12.6
8,790.5	**100.0**		**9,810.8**	**100.0**
11.1		Outstanding Dividend Entitlement and Recoverable with-holding Tax	15.4	
8,801.6		**Total Investment Assets**	**9,826.2**	

Note P15 – Investment Market Value Movements Analysis

The change in the value of investments during 2012/2013 is set out below:-

	Value at 1 April 2012 £M	Purchases at Cost £M	Sales Proceeds £M	Change in Market Value £M	Value at 31 March 2013 £M
Fixed Interest Securities	158.8	-	-	15.1	173.9
UK Equities	861.2	30.2	(25.0)	100.2	966.6
Overseas Equities	1,735.6	185.0	(152.7)	253.4	2,021.3
Pooled Investment Vehicles	5,236.3	819.4	(800.5)	502.5	5,757.5
Property	615.4	13.4	(36.2)	(25.2)	567.6
	8,607.3	**1,048.0**	**(1,014.4)**	**846.0**	**9,486.9**
Broker Balances	0.2				(0.1)
Outstanding dividend entitlement and recoverable With-holding tax	11.1				15.4
Foreign Currency	43.7				82.9
Cash Deposits	139.3				241.1
Total Investments	**8,801.6**				**9826.2**

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 114 late payments amounting to £3.9M 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 £0.4M (2011/12: £0.6M). 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 2012 £		31 March 2013 £
126,009	Equities - UK Quoted	141,434
424,768	Equities - Overseas Quoted	243,344
550,777	**Total**	**384,778**

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 2011/2012 is set out below:-

	Value at 31 March 2011 £M	Purchases at Cost £M	Sales Proceeds £M	Change in Market Value £M	Value at 31 March 2012 £M
Fixed Interest Securities	152.8	-	-	6.0	158.8
UK Equities	975.3	20.4	(74.4)	(60.1)	861.2
Overseas Equities	1,901.5	53.9	(155.3)	(64.5)	1,735.6
Pooled Investment Vehicles	4,871.0	1,100.5	(774.9)	39.7	5,236.3
Property	571.1	46.7	(8.8)	6.4	615.4
	8,471.7	**1,221.5**	**(1,013.4)**	**(72.5)**	**8,607.3**
Broker Balances	-				0.2
Outstanding dividend entitlement and recoverable With-holding tax	12.3				11.1
Foreign Currency	28.3				43.7
Cash Deposits	99.3				139.3
Total Investments	**8,611.6**				**8,801.6**

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 £179.3M which represents profit on sale of the Fund's assets.

Net gains and losses on financial instruments

31 March 2012 £M		31 March 2013 £M
	Financial Assets	
(72.6)	Fair value through profit and loss	846.0
(72.6)	**Total**	**846.0**

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 2012 Carrying Value £M	31 March 2012 Fair Value £M		31 March 2013 Carrying Value £M	31 March 2013 Fair Value £M
		Financial Assets		
7,103.8	8,607.3	Fair value through profit and loss	9,486.9	9,486.9
138.7	138.7	Loans and receivables	339.3	339.3
7,242.5	**8,746.0**	**Total**	**9,826.2**	**9,826.2**

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 2013	Quoted Market Price Level 1 £M	Using Observable Inputs Level 2 £M	With significant unobservable inputs Level 3 £M	Total £M
Financial Assets				
Financial Assets at fair value through profit and loss	5,538.4	1,484.3	2,464.2	9,486.9
Loans and receivables	335.3	-	-	335.3
Total Financial assets	**5,873.7**	**1,484.3**	**2,464.2**	**9,822.2**

Values at 31 March 2012	Quoted Market Price Level 1 £M	Using Observable Inputs Level 2 £M	With significant unobservable inputs Level 3 £M	Total £M
Financial Assets				
Financial Assets at fair value through profit and loss	4,976.6	1,267.7	2,362.9	8,607.2
Loans and receivables	191.6	-	-	191.6
Total Financial assets	**5,168.2**	**1,267.7**	**2,362.9**	**8,798.8**

Note P16 – Investment Capital Commitments

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

31 March 2012 £M		31 March 2013 £M
1,071.4	Non-Equities	808.7
184.5	Property	139.0
1,255.9	**Total**	**947.7**

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

Note P17- Current Assets

31 March 2012 £M		31 March 2013 £M
	Receivables and Prepayments	
	Contributions Receivable	
7.6	- Employers	21.6
8.8	- Employees	8.4
43.7	Wolverhampton City Council	42.5
-	Other Receivables	-
60.1	**Total Receivables and Prepayments**	72.5
9.9	Cash	0.7
70.0	**Total Current Assets**	**73.2**

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 Limited 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 Receivables is £19,374,018 (2011/12: £24.909.451).

31 March 2012 £M		31 March 2013 £M
	Analysis of Receivables	
-	Central Government Bodies	-
49.8	Other Local Authorities	51.5
-	Public Corporations	-
10.3	Other Entities and Individuals	21.0
60.1	**Total**	**72.5**

Note P18- Current Liabilities

31 March 2012 £M		31 March 2013 £M
	Payables and Receipts In Advance	
(4.5)	Pensions and Lump Sum Benefits	(4.1)
(8.5)	Other Payables	(8.9)
-	Trustee Account	(0.1)
(24.8)	**Bulk Transfer Pension increases**	**-**
(37.8)	**Total**	**(13.1)**

The bulk transfer pension increases amount of £24.8M included within current liabilities at 31 March 2012 relates to amounts owed in respect of back payments to cover pre October 1986 pension increase payments between 1995 and 31 March 2012 for former retiring employees of West Midlands Passenger Transport Executives. A payment of £25.1M, including interest, was made in November 2012.

31 March 2012 £M		31 March 2013 £M
	Analysis of Payables	
(3.1)	Central Government Bodies	(3.2)
(1.8)	Other Local Authorities	(0.1)
(32.9)	Other Entities and Individuals	(9.8)
(37.8)	**Total**	**(13.1)**

Note P19- Additional Voluntary Contributions

As well as joining the fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions are not included within the fund accounts, in line with regulation 4 (2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

31 March 2012			31 March 2013	
Equitable Life £M	Prudential £M		Equitable Life £M	Prudential £M
3.9	**28.1**	**Opening Value of the Fund**	**2.9**	**27.5**
-	8.5	Income	-	7.3
(1.1)	(10.3)	Expenditure	(0.4)	(5.0)
0.1	1.2	Change in Market Value	0.2	0.4
2.9	**27.5**	**Closing Value of the Fund**	**2.7**	**30.2**

Note P20- Post Year End Transactions

There were no major events following the end of the financial year that would affect the validity of the figures shown in the statements.

Note 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:

Investment Risk – the possibility that the Authority will not receive the expected returns.

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. Currency risk, other price risk and interest rate risk are types of market risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the 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 80% 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 20% 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 2013 totalled £239.3M 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 2013 is shown below:

Credit Rating Sensitivity Analysis			
Summary	Rating	Balances as at 31 March 2013 £M	Balances as at 31 March 2012 £M
Money Market Funds			
AIM STIC Global Sterling Portfolio	AAA	79.4	13.2
HSBC Sterling Liquidity Fund	AAA	81.7	12.2
Northern Trust Global Sterling Fund	AAA	1.2	1.2
Short Term Deposits			
Banco Santander	A+	8.0	10.0
Barclays	A+	9.0	-
Principality Building Society	BBB+	-	5.0
Coventry Building Society	A	5.0	5.0
West Bromwich Building Society	BBB-	-	5.0
Newcastle Building Society	BB+	5.0	1.0
Bank Deposit Accounts			
Nat West Liquidity Select	A	50.0	86.1
Total		**239.3**	**138.7**

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.

Currency Risk

The Fund's exposure to currency 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 2013, £43.9M 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 £50.5M, giving a margin of 15%.

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 £0.9M during the year and is detailed in note 13 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 currency 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:

Price Risk				
Asset Type	Value as at 31 March 2013 £	% Change	Value on Increase £	Value on Decrease £
UK equities	970.2	16.0%	1,125.4	814.9
Global equities (ex UK)	3,234.7	19.0%	3,849.3	2,620.1
Property	837.9	14.5%	959.4	716.4
Corporate bonds (short term)	80.4	7.1%	86.2	74.7
Corporate bonds (medium term)*	639.6	10.4%	706.1	573.1
Corporate bonds (long term)	182.8	18.5%	216.6	148.9
UK fixed gilts (short term)	103.9	2.9%	106.9	100.8
UK fixed gilts (medium term)**	127.4	7.9%	137.5	117.3
UK fixed gilts (long term)	46.5	12.9%	52.5	40.5
UK index linked gilts (short term)	192.5	3.3%	198.9	186.2
UK index linked gilts (medium term)	93.0	5.9%	98.4	87.5
UK index linked gilts (long term)	378.4	8.5%	410.6	346.3
Commodities	206.8	13.8%	235.4	178.3
Cash	323.9	0.8%	326.5	321.3
Private Equity	1,231.9	27.8%	1,574.3	889.4

Infrastructure	326.5	14.4%	373.5	279.5
High Yield Debt***	135.5	13.1%	153.3	117.7
Absolute Return/Diversified Growth	698.9	11.8%	781.4	616.4
Total Assets	**9,810.8**	**11.1%**	**10,899.8**	**8,721.8**

*includes exposure Emerging Market Debt (£325.0m) and Loans (£57.7m)
**includes exposure to Overseas Bonds (£81.3m)
***includes Mezzanine debt (£24.1)

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 2013:

Currency Risk (by asset class)

Asset Type	Value as at 31 March 2013 £	% Change	Value on Increase £	Value on Decrease £
Overseas Equities	3,234.7	13.0%	3,655.2	2,814.2
Private Equity	1,056.8	13.0%	1,194.1	919.4
Fixed Interest	646.4	13.0%	730.5	562.4
Alternatives	558.8	13.0%	631.4	486.1
Property	232.7	13.0%	263.0	202.5
Liquid Assets	323.9	13.0%	366.1	281.8
Total	**6,053.3**	**13.0%**	**6,840.3**	**5,266.4**

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 2013 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 2012 £M	Asset Type	As at 31 March 2013 £M
138.7	Cash & Cash Equivalents	239.3
44.3	Cash Balances	84.7
2,651.1	Fixed Interest Securities	1,034.3
2,834.1	**Total**	**1,358.3**

Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+180BPS	-180BPS
	£M	£M	£M
Cash & Cash Equivalents	239.3	4.3	(4.3)
Cash Balances	84.7	1.5	(1.5)
Fixed Interest Securities	1,034.3	18.6	(18.6)
Total change in assets available	**1,358.3**	**24.4**	**(24.4)**

Note P22- Impairment for Bad and Doubtful Debts

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	6	132.75
£50 - £100	1	88.33
£100 - £500	1	180.86
Over £500	1	764.65
Total	**9**	**1,166.59**

Write off Analysis		
Individual Value	**Number**	**Total £**
Less than £50	5	118.52
£50 - £100	21	1,477.71
£100 - £500	16	2,515.27
Over £500	7	9,658.04
Total	**49**	**13,769.54**

Note P23- Participating Employers of the Fund at 31 March 2013

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, 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 and City College Birmingham
Stourbridge College	University College Birmingham	Walsall College
Other Bodies with no active members		
Bickenhill Parish Council	Sandwell Homes Limited	

Scheduled Bodies		
Other Bodies		
Ace Academy (Alexandra Academy)	Alderbrook School	Aldersley High School
Aldridge School - A Science College	Arden Academy Trust	ARK Academies
ARK Kings Academy	ARK Rose Primary Academy	ARK Tindal Primary Academy
Arthur Terry Learning Partnership	Aston Manor Academy	Aston University Engineering Academy
Balsall Common Primary Academy	Balsall Parish Council	Barr Beacon School Trust
Bartley Green School	Billesley Primary School	Birmingham Museums Limited
Bishop Vesey's Grammar School	Black Country University Technical College	Blakenhale Infants School
Blakenhale Junior School	Blue Coat Church of England Academy Limited (The)	BOA Birmingham Ormiston Academy
Castle Bromwich Parish Council	Caludon Castle School	Central Learning Partnership Trust (Heath Park Academy)
Charles Coddy Walker Academy	Chelmsley Wood Town Council	Chilwell Croft Academy
City of Wolverhampton Academy Trust	Collegiate Academy Trust (The)	Coundon Court
Ctc Kingshurst Academy	Croft Primary Academy	Deanery Church of England School
Dorrington Academy Trust	E-ACT Heartlands Academy	E-ACT North Birmingham Academy
E-ACT Shenley Academy	E-ACT Willenhall Academy	Earls High School (The)
EBN Free School	Education Central Multi Academy Trust	Erdington Hall Primary Academy
Fairfax School	Finham Park School	Fordbridge Parish Council
Four Dwellings Primary Academy	George Dixon Academy	Goldsmith Primary Academy
Grace Academy	Great Barr Primary School	Greenholm Primary School
Greenwood Academy	Hall Green Secondary School	Handsworth Wood Girls' School
Harborne Academy	Hillcrest School and Sixth Form Centre	High Arcal School Academy Trust (The)
Heart of England School	Hockley Heath Academy	Holly Hall Academy (The)
Holyhead School	John Henry Newman Catholic College (The)	Joseph Leckie Academy Trust
Jubilee Academy Mossley - ATT	King Edward VI Aston School (Academy)	King Edward VI Camp Hill School for Boys (Academy)

Scheduled Bodies		
King Edward VI Camp Hill School for Girls (Academy)	King Edward VI Five Ways School (Academy)	King Edward VI Handsworth School (Academy)
King Edward VI Sheldon Heath Academy	Kings Norton Girl's School and Language College	Kings Rise Community Primary School
Kingshurst Parish Council	Kingswinford School and Science College (The)	Langley School
Lea Forest Primary Academy	Light Hall School	Lode Heath School
Lordswood Boys School	Lordswood Girls School and Sixth Form Centre	Mansfield Green E-ACT Academy
Meriden Parish Council	Merritts Brook E-ACT Primary Academy	Mesty Croft Academy
Moseley Park School	Nansen Primary School	Nechells Primary E-ACT Academy
Ninestiles Academy Trust	Oaklands Primary - Ninestiles Academy	Oldbury Academy
Oldknow Academy	Ormiston Academies Trust	Ormiston Forge Academy
Ormiston George Salter Academy	Ormiston Sandwell Community Academy	Park Hall Academy
Park Hall Infant Academy	Park Hall Junior Academy	Park View Educational Trust
Parkfields Community School	Percy Shurmer Primary School	Perry Beeches - The Academy
Plantsbrook School	Queen Mary's High School (Walsall)	Q3 Academy
Queen Mary's Grammar School (Walsall)	Reedswood E-ACT Primary Academy	Rookery School
Rough Hay Primary	RSA Academy	Ryder Hayes Academy Trust
Sandwell Academy Trust Limited	Sandwell Leisure Trust	Shelfield Community Academy
Shire Oak Academy Trust	Shirestone Community Academy	Short Heath School
Sidney Stringer Academy Trust	Smiths Wood Parish Council	Solihull Community Housing Limited
St Clements C of E Academy	St John's C of E Primary School	St Mary's C of E Junior & Infant School
St Michael's C of E Primary School	St Michael's Junior and Infants School	St Patrick's Church of England Primary Academy
St Peter's Collegiate School	Streetly Academy (The)	Sutton Coldfield Grammar School for Girls Academy Trust
The Blue Coat Church of England Academy	Tile Hill Wood School and Language College	Timberley Academy Trust
Tudor Grange Academy Solihull Trust	Tudor Grange Primary Academy St James	Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)

Scheduled Bodies		
Victoria Park Primary Academy	Walsall City Academy Trust	Walsall College Academies Trust (The Mirus Academy)
Warren Farm Primary School	West Walsall E-ACT Academy	Westwood Academy
Whitley Academy	Windsor High School and Sixth Form	Wilson Stuart School
Wolverhampton Homes Limited	Wood Green Academy	Woodlands Academy
Woodlands Academy of Learning	Woodview School	

Admitted Bodies		
With Active Members		
4 Towers TMO Limited	Acivico (Building Consultancy)	Acivico (Design, Construction and Facilities Management)
ACUA Limited	Age Concern Birmingham	Age Concern Birmingham (VSOP)
Age Concern Wolverhampton	Aspen Services Limited (Gosford Park)	Aston University
BID	Black Country Consortium Limited	Black Country Museum Trust Limited (The)
Black Country Partnership NHS Foundation Trust	Bloomsbury Local Management Organisation Limited	BME United Limited
Brownhills Community Association Limited	Bushbury Hill Estate Management Board Limited	Chuckery Tenant Management Organisation Limited
Coventry and Solihull Waste Disposal Company Limited (The)	Coventry Heritage and Arts Trust	Coventry Law Centre Ltd
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 Limited (formerly Beechdale)	Heart of England Care	Home Start Northfield
Home Start Stockland Green/Erdington	Home Start Walsall	Leamore Residents Association Limited

Admitted Bodies		
Leisure & Community Partnership Limited	Lieutenancy Services (West Midlands) Limited	Life Education Centres West Midlands
Light House Media Centre	Manor Farm Community Association	Marketing Birmingham Limited
Midland Heart Limited	Voyage Care Limited	Millennium Point Trust
Museum of British Road Transport Trust (Coventry) Limited	Murray Hall Community Trust Limited	Murray Hall Community Trust (Oldbury)
Murray Hall Community Trust (Rowley)	Murray Hall Community Trust (Wednesbury)	Mytime Active
New Park Village Tenant Management Organisation	Northern Housing Consortium Limited	Optima Community Association
Palfrey Community Association	Penderels Trust Limited (The)	Pool Hayes Community Association
Priory Family Centre	Riverside Housing Association Limited (formerly Riverside Group Limited)	Sandwell Arts Trust
Sandbank Tenant Management Organisation Limited	Sandwell Community Caring Trust (The)	Sandwell Community Caring Trust (Sandwell Care Homes)
Sandwell Inspired Partnership	Sickle Cell and Thalassaemia Support Project (Wolverhampton)	Solihull Care Limited
Solihull Care Trust	St Columba's Day Care Centre	Steps to Work (Walsall) Ltd
Titan Partnership	University of Warwick	Voyage Care Limited (formerly Milbury Community Services)
Walsall Housing Group Limited	Watmos Community Homes	West Midlands Transport Information Services Limited
Whitefriars Housing Group Limited	Wildside Activity Centre	Wolverhampton Grammar School Limited
Wolverhampton Network Consortium	Wolverhampton Voluntary Sector Council	
Without Active Members		
Adoption Support	All Saints Haque Centre	Aquarius Action Projects
Asian Welfare Centre	Asian Women's Adhikar Association (AWAAZ)	Belgrade Theatre Trust (Coventry) Limited
Bilston and Ettingshall SureStart	Birmingham and Solihull Connexions Services	Birmingham and Solihull Learning Exchange (The)
Birmingham Heartlands Development Corporation	Black Business in Birmingham	Black Country Connexions

Admitted Bodies		
Black Country Museum Development Trust (The)	BXL	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	Job Change
Metropolitan Authorities Recruitment Agency (METRA)	Moseley and District Churches Housing Association Limited	National Urban Forestry Unit
National Windows (Homes Improvements) Limited	Newman College	Relate
RM Education	Sandwell Regeneration Company Limited	Select Windows (Homes Improvements) Limited
Serco Limited (Stoke)	Smethwick Asra Limited	Solihull Care Trust
Solihull Community Caring Trust	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	TSB Bank plc (formerly Birmingham Municipal Bank)	University of Birmingham
University of Warwick	Walsall Enterprise Agency Limited	Walsall Regeneration Company Limited
Wednesbury Action Zone	West Bromwich Afro-Caribbean Resource Centre	West Midlands Councils (formerly West Midlands Leaders Board)
West Midlands (West) Valuation Tribunal	West Midlands Examinations Board (The)	West Midlands Local Authorities Employers’ Organisation
Wolverhampton Community Safety Partnership	Wolverhampton Development Corporation Limited	Wolverhampton Family Information Service Limited
Wolverhampton Race Equality Council		

Transferee Admission Bodies (Best Value)		
Action for Children (Smethwick)	Action for Children (West Bromwich)	Agilisys Limited (OCOS/WODO/Tipton)
Agilisys Limited (Rowley/Smethwick)	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 Limited	APCOA Parking (UK) Limited	Balfour Beatty Workplace Limited (Birmingham)
Balfour Beatty Workplace Limited (Coventry)	BAM Construct UK Limited	Barnardos (Sandwell)
Bespoke Cleaning Services Limited	British Telecom plc	Carillion (Wolverhampton)
Capita IT Services Limited	Creative Support Limited	DRB Wychall Primary
DRB Yew Tree Primary	Enterprise Managed Services Limited - Solihull	Enterprise (AOL) Limited (Telford and Wrekin)
Enterprise Managed Services (W-ton)	Elite Cleaning and Environmental Services	Galliford (UK) Limited
Harrison Catering Services Limited	Housing 21	Initial Catering Services Limited (Rowley)
Initial Catering Services Limited (Smethwick)	Integral UK Limited	Interserve Facilities Management (OCOS/WODO)
KGB Cleaning & Support Services Limited	Lawrence Cleaning Limited (Parkfields)	Lawrence Cleaning Limited (St Stephens)
Leisure Living Limited	Lend Lease Construction (EMEA) Four Dwellings School	Lend Lease Construction (EMEA) George Dixon School
Lend Lease Construction (EMEA) Moseley School	Lend Lease Construction (EMEA) Park View School	Lend Lease Construction (EMEA) Saltley School
Lend Lease Construction (EMEA) Stockland Green Broadway School	Lend Lease Construction (EMEA) Waverley School	Lend Lease (EMEA) Ltd - E-ACT Shenley Academy
Lend Lease FM (Broadway School)	Lend Lease FM (EMEA) (George Dixon School)	Lend Lease FM (EMEA) (HML Stockland Green)
Lend Lease FM (EMEA) (International School)	Lend Lease FM (EMEA) (Moseley School)	Lend Lease FM (EMEA) (Park View School)
Lend Lease FM (EMEA) (Saltley School)	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 Ltd	Premier Support Services Limited (Holy Trinity RC)	Premier Support Services Limited (Alumwell School)
Premier Support Services Limited (Hodge Hill School)	Premier Support Services Limited (Streetly School)	Premier Support Services Limited (St Edmunds Campion)
Premier Support Services Limited (Trinity RC)	Quadron Services Limited	Redcliffe Catering Limited (Calthorpe School)

Transferee Admission Bodies (Best Value)		
Regent Office Care Limited (COWAT)	Regent Office Care Limited (Henley College)	Regent Office Care Limited (Hereward College)
Regent Office Care Limited (Willenhall)	Serco Limited	Serco Limited (Sandwell)
Service Birmingham Limited	Sodexo Limited	Tarmac Limited
Taylor Shaw Limited (Colton Hills)	Taylor Shaw Limited (COWAT)	Taylor Shaw Limited (Great Barr School)
Taylor Shaw Limited (Hodge Hill)	Taylor Shaw Limited (St Albans)	Thomas Vale Construction plc
Willmott Dixon Partnership Limited (North Contract)	Willmott Dixon Partnership Limited (South Contract)	
<u>Without Active Members</u>		
Accord Operations (Birmingham)	Alliance in Partnership - Aston	APCOA Parking (UK) Limited Solihull
AWG Facilities Services Limited	Birmingham Accord Limited	Bovis Lend Lease Management Services
Burrowes Street Tenant Management Organisations Limited	Central Parking Systems	Enterprise (AOL) Limited (Shrewsbury)
Enterprise (AOL) Limited (Shropshire)	Forest Community Association	GF Tomlinson Birmingham Limited
Icare (GB) Limited	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
Mitie Cleaning (Midlands) Limited - Birmingham City Council	Mitie Managed Services (S&SW) Limited	Mitie Managed Services (S&SW) Limited - Coventry
Mitie Cleaning (Midlands) Limited - Wednesfield	Mitie Property Services (UK) Limited	MLA West Midlands
Morrison Facilities Services Limited	Redcliffe Catering Limited (Aston School)	Redcliffe Catering Limited (Bordesley Green Girls Sch)
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
ServiceTeam Limited	South Warwickshire Tourism Limited	Strand Limited
Superclean Services	Target Excel Plc (Magistrates Courts)	Target Excel Plc (Solihull MBC)
Taylor Shaw Limited (COWAT)	Taylor Shaw Limited (St Albans)	Technology Innovation Centre
Temple Security Limited	Thomas Vale Construction plc	Veolia Environmental Serviced Cleanaway (UK) Limited

Transferee Admission Bodies (Best Value)		
Vertex Data Science Limited	Wates Construction Limited (Birmingham)	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	

Scope of Responsibility

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. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has 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*. This code is incorporated within the council's Constitution, which is available for review on the council's website.

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

Wolverhampton Homes Limited is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 Council, 1/3 tenants and 1/3 independent.

The Management Agreement between the Council and Wolverhampton Homes Limited sets out the contractual arrangements between the parties and the governance arrangements and a new 15 year Management Agreement has recently been approved by both the Council and the Wolverhampton Homes Limited Board for adoption from April 2013.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The systems of risk management and internal control are based on an on-going process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31 March 2013 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework and Review of Effectiveness throughout 2012/13

The Council has the following Corporate Plan aims and themes: Encouraging Enterprise and Business, Empowering People and Communities, Re-Invigorating the City and Confident, Capable Council, which are underpinned by the governance environment. This environment is consistent with the six core principles of the CIPFA/ SOLACE framework.

The key elements of the systems and processes that comprise the council's governance framework, and where assurance against these is required, are described below.

Core principles of the CIPFA/ SOLACE framework	Assurances required	Governance framework providing assurance	Review of Effectiveness	Issues identified
Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area Members and officers working together to achieve a common purpose with clearly defined functions and roles	• Delivery and communication of an agreed corporate plan • Quality services are delivered efficiently and effectively • Clearly defined roles and functions • Management of risk • Effectiveness of internal controls • Compliance with laws,	• The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) • Council, Cabinet and Committees • Scrutiny function • Audit Committee (and 2 x Sub-Committees) • Standards Committee • Internal and External Audit • Strategic Executive Board	• Statement of Accounts 2012/13 • External Audit Report to Those Charged with Governance (ISA 260) Report 2012/13 • Annual Internal Audit Report 2012/13 • Annual Audit Committee Report 2012/13 • Local Government Ombudsman Report 2012/13	• FutureSpace: Corporate Landlord • Information Governance • Partnership Governance • Contract Management and Monitoring • Procurement • Savings Targets • Resilience function • Equalities

Core principles of the CIPFA/ SOLACE framework	Assurances required	Governance framework providing assurance	Review of Effectiveness	Issues identified
Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Developing the capacity and capability of members and officers to be effective Engaging with local people and other stakeholders to ensure robust public accountability	regulation, internal policies and procedures • Value for money and efficient management of resources • High standards of conduct and behaviour • Public accountability • Published information is accurate and reliable • Implementation of previous governance issues	• Corporate Development Board • Directors Assurance Statements • Corporate and business plans • Medium Term Financial Strategy • Corporate Risk Register and Risk Strategy • Codes of Conduct • Business Planning and Performance Management Framework • Whistleblowing and other anti-fraud related policies • Complaints System • Governance Statement Working Group • Financial Regulations • Procurement and Contract Procedure Rules • Committee Management Information Systems	• Care Quality Commission Reviews • Safeguarding Children's Board Annual Report 2012/13 • Safeguarding Adult's Board Annual Report 2012/13 • Quality Assurance and Compliance team reviews • Scrutiny reviews • Annual Governance Statement – follow up of 2011/12 issues	

West Midlands Pension Fund

The West Midlands Pension Fund have completed their own "Assurance Framework – Supporting the Annual Governance Statement" which identified that there had been no adverse matters arising from the work behind their assurance framework.

Wolverhampton Homes Limited

Wolverhampton Homes Limited have included a Statement of Corporate Governance within the Company's Financial Statements for 2012/13. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes Limited and found to be effective. The review included an assurance statement from the Company's internal auditors.

In reviewing the council's priorities and the implications for its governance arrangements, the council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

The key changes to the governance framework during the year include:

- The transition of Public Health Services to the council from 1 April 2013 and the appointment by the council of the Director of Public Health.
- The establishment of the Health and Well Being Board as a committee of the council which has responsibility for tackling local health inequalities.
- A Councillor review group looked at the relationship between the Executive and Scrutiny. Receiving all party support it developed the role of scrutiny helping to shape policy development as well as holding the Executive to account. It has been supported by Councillor and Officer training as well and the production of a scrutiny handbook and practice notes on the way scrutiny is undertaken.

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 Councillors and senior officers within the council who have responsibility for the development and maintenance of the governance framework, Internal Audit's annual report, the Scrutiny function and also by reports made by the council's external auditors and other review agencies and inspectorates, as noted above.

Internal Audit has concluded that based on the work undertaken during the year of areas key risk, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the council has adequate and effective governance, risk management and internal control processes". Key areas of concern have been included within the governance issues noted below.

There is a requirement to report in this Statement that the council is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) as the Section 151 Officer post is not at the same level in the council as members of the Corporate Management Team and they do not report directly to the Chief Executive. However, 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.

A number of issues were identified in the 2011/2 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas is included below. Where sufficient progress has not been made, the issues have been included in the 2012/13 issues.

Progress on the Governance Issues from 2011/12

The table below describes the governance issues identified during 2011/12 and the progress made against these during 2012/13.

2011/12 - Key areas for Improvement	Update on position and implication for the 2012/13 Annual Governance Statement
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.	While a partnership protocol has been agreed, progress in the completion of a partnership register and the management and reporting of partnership risks continues and is therefore work in progress. **Carried forward to 2013/14**

2011/12 - Key areas for Improvement	Update on position and implication for the 2012/13 Annual Governance Statement
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.	The Council implemented a collective agreement on 1 April 2013. The potential for re-introducing pay inequalities is being managed by the Pay Strategy Board who have management oversight of the Wolverhampton Pay and Conditions strategy. The Equal Pay Claims strategy continues to be implemented and is progressing well within the agreed governance arrangement so is therefore no longer considered a governance issue.
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 on-going governance issue.	While action has commenced, the Council did receive critical in-year reviews by the Information Commissioners Office in August and December 2012. Therefore, this area has been carried forward while the recommendations from these reviews are implemented. **Carried forward to 2013/14**
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.	Officers of the Council have been in regular contact with the new Police and Crime Commissioner and proposals have been put forward by the PCC for the development of Local Police and Crime Boards (LPCB) to significantly increase the role of communities.

Action Plan for the Significant Governance Issues identified during 2012/13 which will need addressing in 2013/14

Based on the council's established risk management approach, the following issues have been assessed as being "significant" for the purpose of the 2012/13 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements that were identified in the review of effectiveness and their implementation will be monitored as part of the next annual review and risk management arrangements in place

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
FutureSpace: Corporate Landlord The management of and responsibility for the Council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also work is on-going to improve the co-ordination of responsibilities as the Council develops the role of a 'Corporate Landlord' between the Directorates, along with the continued development of a 'One Council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not Council owned property.	Strategic Director – Delivery Strategic Director – Education and Enterprise 31 March 2014
Information Governance Following critical in-year reviews by the Information Commissioners Office in August and December 2012, the Council is putting in place a robust framework and effective working practices, including: • An established and operational Information Governance Board • Mapped out work programme and resources • A new Information Governance structure • Information Governance policies have been approved • Training programmes are underway	Strategic Director – Delivery Chief Legal Officer (SIRO) Head of Policy 31 December 2013

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
Partnership Governance Partnerships are increasingly common and increasingly important to the Council, in order to deliver the corporate plan and respond to the Localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the 'third sector'. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic. In addition, some of the Council's partnerships have been in place for a number of years and the 'health' and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the Council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the 'health' of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Councillors with portfolio responsibilities.	Strategic Director – Delivery Chief Legal Officer March 2014
Contract Management and Monitoring The Council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an on-going basis for value for money in the future.	Strategic Director - Delivery Head of Procurement 31 December 2013

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
Procurement The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the Council's Contract Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed with the Interim Head of Strategic Sourcing, who is putting in place a whole range of improved working practices over the coming months.	Strategic Director - Delivery Head of Procurement 31 December 2013
Savings Targets While the Council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the Council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and Councillor level.	Strategic Director – Delivery Assistant Director - Finance 31 March 2014
Resilience Function (Emergency Planning and Business Continuity) The Council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new Major Incident Plan and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. . The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.	Strategic Director – Delivery Assistant Director - Delivery 31 March 2014

2012/13 - Key improvement areas and actions for Implementation	Responsibility and expected implementation date
Equalities The Council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2013/14.	Strategic Director – Delivery 31 March 2014

Future Assurance

Regular progress reports on the implementation of the above actions from these key improvement areas will be produced by Audit Services and reported to the Audit Committee throughout 2013/14.

In addition the following two areas, while not identified as significant governance weaknesses during 2011/12, do represent key challenges to the council for the year ahead and their success will play an important role if the council is to achieve its key aims:

Confident, Capable Council

Achieving the Confident, Capable Council objective depends on the creation of a strong corporate core for the organisation and on delivering high quality, cost-effective services. There is a large transformational programme the Council is undertaking in order to deliver this, and the good governance of this programme will be key.

FutureWorks Programme

The Council is currently involved in the procurement of a substantial new IT system that will also support the required business transformation in order to help it achieve its objectives. The Council will need to continue to manage the risks around the general governance and structure of this programme and through the general programme controls it will bring.

Certification

To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Roger Lawrence, Leader of the Council:

Date:

Simon Warren, Chief Executive:

Date:

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 Receivables, Payables

Actuarial / Actuary
The science and profession of using mathematical techniques to model and quantify the financial effects of uncertain future events. For the council, this is relevant in the context of accounting for the Pension Fund, where future transactions of the fund will occur so far into the future that they cannot yet be known with certainty.

Arm's Length Management Organisation
An organisation which is, according to legislation, controlled by (i.e. a subsidiary of) a parent organisation, but whose management structures mean that control is loose and rarely manifests it directly on day-to-day operations of the subsidiary.

Amortisation
The way in which an asset or liability is accounted for over more than one period (other than property, plant and equipment, for which depreciation applies).
See Depreciation

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

Bad Debt Provision
Bad debts are amounts owed to the council which it does not believe will be repaid. The council makes a provision for the amount of bad debt it expects to incur.

11. GLOSSARY

Budget
A budget is a plan of approved spending during a financial year .

Business Rate or National Non-Domestic Rates (NNDR)
Businesses across the country have to pay business rates. The government decides how much they should pay and Local Authorities collect the money. 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 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

Capital Programme
The plan of approved spending on fixed assets.

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 receivables.

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

Events after the Reporting Period
Events after the reporting period 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.

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

11. GLOSSARY

Income and Expenditure Account / Statement
This describes the expenditure made in a single year by an entity, in accordance with the accounting standards that apply at that time to that body in order to generate a view of its year end position in relation to its profit or usable reserves. The following terms are synonymous: "The Income and Expenditure Account", "Comprehensive Income and Expenditure Statement", "Income and Expenditure Statement".

Infrastructure Assets
These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created. Examples of such assets are highways and footpaths.

Intangible Assets
An item which does not have physical substance (for example, software licenses) but can be identified and used by the council over a number of years.

International Accounting Standards (IAS)
These standards were issued by the International Accounting Standards Committee (IASC) - founded in 1973 as a private enterprise initiated by national accounting companies. This committee issued International Accounting Standards for private companies to follow. These standards have now largely been replaced by International Financial Reporting Standards.
See International Financial Reporting Standards

International Financial Reporting Standards (IFRS)
These standards are issued by the International Accounting Standards Board (IASB), established on 1 April 2001 with EU support to be the successor to the IASC. The IASB adopted the International Accounting Standards and then began issuing its own International Financial Reporting Standards. These became mandatory for all private companies quoted on the Stock Exchange in 2004.

Inventories
Goods owned by the council which have not been used by the end of the financial year.

Investments
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investment Properties
Interest in land and/or buildings:
(i) in respect of which construction work and development have been completed.
(ii) is held for its investment potential, any rental income being negotiated at arm's length.

Levy
A payment made by the council to another local service, for example, local transport and the Environment Agency.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.
See Accruals, Payables

Long Term 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.

Major Repairs Reserve
A reserve to pay for large scale repairs to council houses.

Materiality
An item is material if its omission, non-disclosure or misstatement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

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 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

Payables
An amount owed by the council for work done, goods received or services rendered, but for which payment has not been made at the end of the year.
See Accruals, Receivables

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.

Receivables
Sums of money owed to the council but not received at the end of the year.
See Accruals, Payables

Related Party
There is a detailed definition of related parties in FRS 8. For the council's purposes, related parties are deemed to include:
(i) the elected members of the council and their partners.
(ii) the 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

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 council will derive benefits from the use of an asset.

Vacant Possession Value
The market value of a property, were it to be sold with no unusual restrictions on the occupation of the property, or the level of any rents or charges made for its use.
See Existing Use Value (Social Housing)

Work In Progress
Expenditure in respect of assets that are not yet ready to be put into use or sold (as appropriate).

Wolverhampton City Council

Audit Committee

23 September 2013

Report Title	Internal Audit Charter
Classification	Public
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources
Accountable Strategic Director	Keith Ireland, Delivery
Originating service	Delivery/Audit
Accountable officer(s)	Peter Farrow — Head of Audit Tel — 01902 55(4460) Email — peter.farrow@wolverhampton.gov.uk

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Recommendation(s) for action or decision:
The Committee is recommended to:

1. Review and approve the Internal Audit Charter. The Charter is based on the previous terms of reference, and has been updated to reflect the requirements of the new Public Sector Internal Audit Standards.

1.0 Purpose

1.1 There is a statutory requirement for Internal Audit to work in accordance with the ‘proper audit practices’. These ‘proper audit practices’ are in effect the new ‘Public Sector Internal Audit Standards’. The Internal Audit Charter reflects this, and replaces the previous Internal Audit terms of reference. The Charter, which needs approving by the Committee, is a formal document that defines the activity, purpose, authority and responsibility of Internal Audit, and establishes its position within the Council.

2.0 Background

2.1 The terms of reference for Internal audit, were originally prepared in line with the example originally given in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and were approved by the Audit Committee in March 2012. From 1 April 2003 the CIPFA Code has been replaced by new Public Sector Internal Audit Standards. Therefore, the terms of reference have been updated to reflect these new standards, and brought into an Internal Audit Charter.

3.0 Progress, options, discussion, etc.

3.1 Once approved the Internal Audit Charter will be subject to annual review by the Audit Committee.

4.0 Financial implications

4.1 There are no financial implications arising from this report. (GE/05092013/D)

5.0 Legal implications

5.1 There are no legal implications arising from this report. (JH/05092013/Z)

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers

9.1 Public Sector Internal Audit Standards

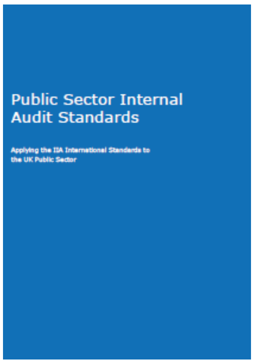
Wolverhampton City Council

Internal Audit Charter

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Authority and standards



There is a statutory requirement for Internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' These Standards are mandatory and have been adopted by the Council's internal audit section.

Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2011, which states that a relevant body must 'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

In the Council's Financial Procedure Rules, the Section 151 Officer has the responsibility to ensure that an adequate and effective internal audit of all Council activities is carried out in accordance with the most recent CIPFA Statements on Internal Audit Practice and relevant legislation.

Internal audit have the right of access to all records, assets, personnel and premises, including those of partner organisations, and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Head of Audit the 'board' as the Audit Committee and 'senior management' as the Strategic Executive Board.

Scope and objectives of internal audit activities

The scope of work of internal audit is to determine whether the Council's risk management, control, and governance processes are adequate and effective in order to ensure that:

- Key risks are identified and managed;
- Key financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process; and
- Key legislative and regulatory issues impacting the Council are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Council and not just financial controls.

Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

Responsibilities

Internal audit has a responsibility to:

- Provide a cost effective and value added full internal audit service;
- Develop a flexible annual audit plan using a risk-based methodology;
- Implement the annual audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit Committee and where appropriate, senior officers;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the External Auditor and other review bodies to share assurance and minimise duplication.

Organisational independence

Internal audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Audit has direct access and freedom to report in his own name to all officers and councillors and particularly to those charged with governance. If required the Head of Audit may request to meet privately with the Audit Committee.

Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.

Accountability, reporting lines and relationships

Internal audit forms part of the Delivery Directorate. The Head of Audit reports on an administrative basis to the Strategic Director of Delivery (who is also the Monitoring Officer) and reports functionally to the Audit Committee, the Chief Executive and other senior management, including the Section 151 Officer. An Annual report will also be produced and presented to the Audit Committee which will include an 'opinion' from the Head of Audit on the adequacy and effectiveness of internal control, risk management and governance within the Authority.

A written report will be prepared by Internal Audit for every internal audit review. The report will be subject to an internal quality review before being issued to the responsible officer and, where appropriate, will include an 'opinion' on the adequacy of controls in the area that has been audited. The responsible officer will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each recommendation. Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

The full role and responsibilities of the Audit Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their "Audit Committees – Practical Guidance for Local Authorities".

Internal audit resourcing

Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence.

The Strategic Director of Delivery/Monitoring Officer is responsible for the appointment of the Head of Audit, who must be suitably qualified and experienced. The Head of Audit is responsible for appointing all of the other staff to internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Head of Audit is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was concluded that resources were insufficient, this must be formally reported to the Strategic Director of Delivery, and, if the position is not resolved, to the Audit Committee.

Fraud

Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.

It is a requirement of the Council's Anti-Fraud and Corruption Policy that any concerns over suspected fraud and corruption should be raised initially with the Head of Audit Services. Internal audit will then control any such investigations.

Advisory work

The Public Sector Internal Audit Standards allow that internal audit effort may, where considered to have the right skills, experience and available resource, sometimes be more usefully focused towards providing advice rather than assurance over key controls. Any such internal audit involvement in consultancy and advisory work, would only take place where it would not constitute a conflict of interest in keeping an independent stance. Any significant additional consulting services will be approved by the Audit Committee beforehand.

Review of the internal audit charter

This charter will be reviewed annually by the Head of Audit Services and the Audit Committee.

Agenda Item No: **8a**

Audit Committee

23 September 2013

Report Title	**2012/2013 Report to those charged with Governance**	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery	
Accountable officer(s)	Mark Taylor Tel Email	Assistant Director - Finance 6609 Mark.Taylor@wolverhampton.gov.uk

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Recommendations for noting:

The Committee is asked to note:

1. The 2012/13 report to those charged with governance from the council's external auditors PricewaterhouseCoopers.

1.0 Purpose

1.1 To present to members of the committee the 2012/13 Report to those Charged with Governance

2.0 Background

2.1 ISA 260 is an auditing standard that requires external auditors to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action.

3.0 Content of the report

3.1 The attached external audit report covers:

(a) Issues arising from the external audit of the financial statements, which were previously submitted to the Audit Committee on 6 July;

(b) The results of work undertaken in forming an opinion on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

3.2 In addition, the external auditors will also provide an update on audit work.

4.0 Financial implications

4.1 This report has no direct financial implications. Where the ISA 260 report refers to changes to the council's Statement of Accounts, these are discussed in agenda item 6a.

4.2 The ISA 260 report, and the audit of the accounts, are of fundamental importance to the council's governance and financial control frameworks, and play a key role in ensuring accountability and transparency in the council's finances.

[CF/17092013/J]

5.0 Legal implications

5.1 The Accounts and Audit Regulations require the 2012/13 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 certified by the Section 151 Officer by 30 June 2013 and published by 30 September 2013.

[MS/17092013/Z]

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Schedule of background papers

Draft Statement of Accounts 2012/13, report to Audit Committee, 8 July 2013

2012/13 Statement of Accounts Progress Update, report to Audit (Final Accounts Monitoring and Review) Sub Committee, 22 April 2013

Appendix 1

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Wolverhampton City Council

Report to those charged with governance (ISA 260)

Government and
Public Sector

September 2013

Report to the Audit Committee of the Council on the audit for the year ended 31 March 2013

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2.This report contains a summary of the results of our audit and matters which we ask the Audit Committee to consider.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

Executive summary

Background

This letter contains the significant matters we wish to report to you arising from all aspects of our work.

We presented our plan to you in March 2013; we have reviewed the plan and concluded that it remains appropriate. We will provide an update on our progress at the Audit Committee meeting on 23 September 2013 and look forward to discussing our report with you then.

Audit Summary

- Your draft accounts (including pension fund) were submitted to us before the 30 June deadline and were of a high quality. Initial supporting working papers were provided on time in the majority of cases and were generally of a good quality.
- Key contacts in the finance team and elsewhere were available during the audit and responded readily to our questions and requests for information. We would like to thank the Finance Team and others for their support and assistance during the audit.
- The most complex issues this year have been:
    - Ensuring that revised valuations of Council land and buildings are based on accurate data;
    - Confirming the adequacy of the Provision for Equal Pay;
    - Determining that schools transferring to Academy status have been accounted for correctly; and
    - Considering the financial standing of the Council over the medium term.

  Further detail is given later in this report on all of these topics. The accounts have now been corrected for all adjustments required in these areas.
- A number of minor disclosure issues were identified, discussed and appropriately amended.
- The Audit Committee need to confirm the proposed treatment of the unadjusted misstatement in Appendix 1.

Audit Status

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and value for money conclusion by 30 September 2013 following approval by the Section 151 Officer. We do have a small number of outstanding matters, where our work has commenced but is not yet finalised.

Internal controls

We have not identified any material deficiencies in internal control. There is one more minor issue we bring to your attention regarding segregation of duties on posting journals.

Risk of fraud

We have not identified any instances of fraud that would impact on our audit opinion.

We look forward to discussing our report with you on 23 September 2013. Attending the meeting from PwC will be Richard Bacon and Richard Vialard.

We utilise a range of technology to support what we do, including data auditing, bespoke delivery centres and out cutting edge Auditing software 'Aura'.

We have summarised within the following page how we have brought together our people, approach and technology to deliver your audit in 2012/13.

Audit approach

Smart People

We continue to deploy our best people on your audit, supported by a substantial investment in training and in our industry programme.

Your audit team has been drawn from our government and public sector team based in the Midlands, but is further supported by our specialists both in the sector, and across other services.

Our intention is that, wherever possible, staff work on the audit each year, developing effective relationships and an in depth understanding of your business.

Our team (including our Pension Fund and IT specialists) was very stable for 2012/13 with the Engagement Leader, Senior Manager, Manager and Team Leader all having significant experience on your audit.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013 the work included:

- Using data analysis in auditing housing income. We automatically match revenue transactions to accounts receivable and cash in a targeted way.
- We have used benchmarking as part of our work on Value for Money. This has included using Audit Commission tools to compare you to other City Councils, and our own analysis when assessing your Medium Term Financial Strategy.

We will also continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the Statement of Accounts.

Benefits for the audit

The key benefit of our approach for your audit has been the use of our delivery centres which have reviewed in detail your compliance with the 2012/13 Code of Practice.

In 2013 the work undertaken by the delivery centres included consistency and casting checks on the draft financial statements. This enabled our core teams to focus on areas of higher risk and judgement.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.

We reported our planned audit approach to you in our 2012/13 Audit Plan. This was supplemented by a report to the Audit Committee in June 2013.

These documents set out the risks to be addressed as part of the audit and the work we planned to do in response to those risks.

We have summarised these risks and our actual responses in the table opposite and on the following pages.

The first two risks, Management Override of Controls and the Recognition of Income and Expenditure, are presumed to be significant risks under International Standards on Auditing.

Risk assessment

We set out below our actual responses to the risks we identified in our Audit Plan.

Risk	Category	Audit approach
Fraud and Management Override of Controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.	● - **Significant risk**	As planned we have: • evaluated the work of internal audit relating to the income , debtors, expenditure, creditors and payroll business cycles; • considered the design and effectiveness of key controls; • reviewed the Council's draft accounting policies relating to income and expenditure. • tested in detail a risk based sample of the income and expenditure balances; • tested a sample of journal entries to ensure they are appropriate and are supported; • tested the cut off of income and expenditure at the 31 March 2013; and • reviewed key accounting estimates for revenue, expenditure and provisions. **Based on our audit work have concluded that:** • **systems are generally operating effectively;** • **we have identified no significant or material weaknesses; and** • **there are no issues that impacted on our planned audit approach.**

Risk	Category	Audit approach
Recognition of income and expenditure Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such way as to lead to material misstatement in the reported revenue and expenditure position.	● - Significant risk	As planned we have: • evaluated the work of internal audit; • considered the design and effectiveness of key controls within key financial systems (such as cash, creditor payments and payroll); • reviewed the Council's draft accounting policies; • reviewed the Council's processes for raising and approving journals; • undertaken detailed testing of those IT systems which underpin the Council's accounts; • tested financial system access controls.; • understood the processes involved with raising journals and selecting a risk based sample for testing; • tested the appropriateness of journal entries and other adjustments; • reviewed accounting estimates for bias (including provisions, asset valuations and debtor/creditor balances); • tested in detail the Council's year end bank account (and other) reconciliations focussing on any unusual items; and • applied unpredictable procedures when performing detailed testing. **Based on the work set out above we have:** • **identified no significant or material weaknesses; and** • **concluded that there are no issues requiring the attention of the Audit Committee in this area.**

Risk	Category	Audit approach
Valuation of properties Property, plant and equipment (PPE) is the largest balance in your balance sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts. We have to consider how expertise is used, how your processes ensure the balance is fairly stated, and your assumptions. Specific areas of risk include: • asset valuation data may be inaccurate or incomplete; • the Council's valuation assumptions may not be appropriate; • assets' actual market value may fluctuate materially but may not have been re-valued in the accounts; and • capital expenditure may not be accurately allocated between enhancing and non-enhancing.	● - Significant risk	We held discussions with the finance team to understand the approach to revaluing the Council's estate in 2012/13. We engaged our internal valuation specialists to ensure appropriate input into the process. We reviewed the Council's draft accounting policies with respect to the measurement and valuation of property, plant and equipment assets and identified no concerns. We considered controls in place to ensure the completeness and accuracy of asset values within the accounts. This has included following up control issues raised during the 2011/12 audit. We reviewed and validated the key judgements, assumptions and supporting data used. We assessed the reasonableness of estimation techniques applied. We reviewed the expertise of your internal Valuer. We have considered the steps you have taken to ensure that your balance sheet is materially accurate at the year end and that there are no indicators of general impairment. **We have identified a small number of misstatements that have required adjustment and have made associated control recommendations.** *More details on the results of our audit procedures are included in the section 'Significant audit and accounting matters' and 'Internal Controls' below.*

Risk	Category	Audit approach
Provision for Equal Pay As in previous years, the Council is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims. Over the last four years the Council has received notification of employment tribunal claims against the Council alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Council in relation to these claims. On the basis of the advice provided and the information available the Council concluded that at 31 March 2012 the most probable liability was £30 million. This figure reflected known claims as well as other potential claims.	● - Elevated risk	We have updated our understanding of the Council's arrangements for managing these matters through discussion with key officers. We reviewed the Council's draft accounting policies with respect to the recognition of related expenditure and the measurement and valuation of related liabilities, and have no concerns to report. We tested whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay were materially accurate and whether they met relevant financial reporting standards. We understood and evaluated the assumptions made regarding each sub-group of claimant, underlying claimant and unknown potential claimants. We received confirmation from the Council's legal advisors that the Council's interpretation of legal advice provided was reasonable and that there are no changes to the legal judgements or level of cases received that we have not been advised of. We reviewed and challenged assumptions made by the Council regarding relevant case law and the associated implications for the Council's provision. We have understood that, consistent with previous years, the Council can only make informed estimates about the level of second generation claims that may be received at a future date. **Although we recognise that there remains some unavoidable risk associated with second generation claims, based on our work we have concluded that the £26.5 million provision is not unreasonable and is materially accurate based on available information.**

Risk	Category	Audit approach
		More details on the results of our audit procedures are included in the section 'Significant audit and accounting matters' below.
Trading Surpluses and internal charging In 2010/11 we reported that your trading areas, particularly Catering and Cleaning services, were consistently reporting large surpluses within the financial statements. During 2011/12 another large surplus position (£2.6m) was recorded. We have discussed with management the risk that inaccurate charging could represent a transfer of resources between services. The Council is currently undertaking its own review of how it records trading income and expenditure, including how it apportions overhead costs.	● - Normal risk	We reviewed the Council's accounting policies with respect to the treatment of trading accounts, and have no concerns to report. We discussed progress made in reviewing internal charging with management and reviewed the outputs of the work undertaken. Essentially, service areas have been rebated so that the surplus on trading activities has been eliminated. **We satisfied ourselves that the method being used to ensure that income and expenditure recorded within the Comprehensive Income and Expenditure Statement by service area was appropriate and mitigated against the risk of cross-subsidies between services from internal trading. Disclosure note 2A – Trading Operations had not been correctly disclosed in the draft accounts but adjustments have subsequently been made.** *More details on the results of our audit procedures are included in the section 'Supplementary Matters' below.*

Risk	Category	Audit approach
Treasury Management Accounting Practices As a response to the new Housing Revenue Account (HRA) Self-Financing regulations and budgetary pressures on the general fund, the Council has taken the opportunity to develop new methods of calculating interest charges and to revisit the current methods of financing capital expenditure to ensure they remain most appropriate for the Council. The Council has developed new methods for splitting interest costs between the HRA and the General Fund. The Council has also revisited how it calculates and records an appropriate Minimum Revenue Provision (MRP). The adoption of different methods can have a significant impact on the in-year financial outturn and the MTFS for both the general fund and the HRA. As with any accounting change or judgement there is a risk that the new treatment may be in contravention of the relevant accounting standards.	● - Normal risk	We understood the Council's revised approach to determining the annual MRP charge as well as calculating and apportioning interest charges between HRA and General Fund. We reviewed the new methods that are proposed against the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and other sector guidance. We considered whether the additional voluntary set-aside was consistent with the need to 'determine for the current financial year an amount of minimum revenue provision that it considers to be prudent.' We considered the appropriateness of updating the formula for inferred net cash balances of each fund and understood why this was deemed most appropriate and prudent for the Council. **We concluded that the revised methodologies did not contradict the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and met the requirements for a prudent approach**.

Risk	Category	Audit approach
Additional support on your Accounts Closedown Plan Within our 2012/13 audit plan we noted considerable improvements made to the Council's accounts closedown process during 2011/12. We also recognised the remaining risk that with competing demands for resources in the Corporate Finance team the accounts closedown and audit timetable may not be properly planned, executed and / or monitored effectively.	N/A	We held regular meetings with the finance team during the year to monitor progress and review closedown plans. We met regularly with the Section 151 Officer to discuss progress and feedback our observations. We identified no significant concerns in the run up to the accounts close, during the accounts compilation process or in the run up to the audit. The finance team made strong progress against closedown plans and delivered a good set of draft accounts and working papers.

We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures.

Our audit methodology requires us to identify three quantitative materiality thresholds. These help us to plan the nature, timing and extent of our work and to evaluate the significance of any unadjusted differences from our audit procedures.

Materiality

The following table details the materiality levels which we have worked to as part of the audit. These are consistent with the levels previously reported to you.

Type of materiality	Threshold
Overall materiality	Our overall materiality for the Council was revised on receipt of the 2012/13 draft financial statements to £17.9 million. This is calculated as a percentage of expenditure (in line with auditing standards) and represents the level at which we would consider qualifying our audit opinion.
Performance materiality	This is the level to which we plan our audit work and identify significant accounts, which for 2012/13 was £9 million.
De minimis threshold	ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial those which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. It is not unusual to find relatively small misstatements which should not be of significant concern to you. We have discussed these smaller misstatements with management, and apply a threshold to the value of individual misstatements that we report to the Audit Committee. We will not report misstatements below the agreed threshold level unless we believe that the nature of the misstatement should be of concern. For clarity, where we find systematic issues which are not material but could impact the Council significantly in other ways or in the future, we will report them to you, regardless of the impact on the accounts. We have applied a reporting threshold of £0.1 million which was approved in March 2013. We apply our professional judgement to determine this threshold. The factors which we consider include: • the number and amount of prior years' misstatements, whether corrected or uncorrected; and • the results of our risk assessment.

This section of the report summarises the significant audit and accounting matters we have identified in our work sufficiently promptly for you to take appropriate action.

You prepared your accounts to a high standard and the working papers were ready for audit on a timely basis.

We anticipate issuing an unqualified audit opinion.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed the majority of our audit of the Council's accounts in line with auditing standards. At the time of writing, we have work to complete in a small number of areas. This includes:

- Completing our review of audit adjustments and corresponding ledger entries from draft to final accounts;
- Receiving working papers to support our audit of the Council's capitalisation of expenditure relating to the Highfields PFI;
- Receipt of the signed Letter of Representation;
- Completion of our final subsequent events review and quality control procedures;
- Review of the final set of accounts, including a reconciliation of any amendments posted during the audit and disclosure issues recorded;
- Completion of our final review of the accounts; and
- Receiving responses and evidence to address our final queries in the draft Whole of Government Accounts return;

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

Valuation of Property, plant and equipment (PPE)

The Council has to present a materially accurate valuation of its 'property, plant and equipment' (PPE) at each balance sheet date. Asset values are reviewed at least every five years.

Identifying, valuing and accurately recording changes in value involves property, valuation and finance staff, and is a largely manual process. Our experience is that errors can occur.

We identified three valuation errors; all of these misstatements will be adjusted in the final version of the accounts.

1) Valuations differentiate open space from hard standing land. We found that the data used for the 2012/13 valuation was out of date and was from a previous valuation. The valuations have now been recomputed. This has resulted in a net increase in the valuation of PPE of £5.4m at 31 March 2013 (£8.9m increase in prior year) with corresponding increases in unusable reserves carried forward for the years ending 31 March.

2) We tested the gross internal floor area (GIFA) and found that the valuer used the wrong area for one school,

because recent building work had not been included. We then reviewed all schools valued with recent building work and found no further errors; we concluded that this must have been an isolated case. This has resulted in a net increase in the valuation of PPE of £1.2m at 31 March 2013 with a corresponding increase in unusable reserves carried forward for 2012/13.

3) One asset due for sale after 31 March was correctly valued at expected sale value of £5.3m. In the new financial year it became clear that only £4.2m would be received. The balance sheet value has now been reduced accordingly. This has resulted in a net decrease in the valuation of PPE of £1.1m with a corresponding decrease in unusable reserves carried forward for 2012/13.

None of these adjustments has any impact on the General Fund.

Equal Pay provision

As in previous years, the Council has included a provision in the accounts to reflect the most probable liability relating to equal pay and back pay claims.

Over the last five years the Council has received notification of a number of employment tribunal claims alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings.

In 2012/3, £3.5m of Equal Pay claims were settled. A much larger value of other known or potential claims remains unresolved. The Council has considered the legal advice and other information and included a provision of £26.5m.

We have reviewed the documentation and calculations supporting this provision and concluded that although there remains some unavoidable risk associated with potential second generation claims, the £26.5 million provision is not unreasonable and is materially accurate based on available information.

We have received formal confirmation from the Council's legal advisors that the proposed accounting treatment is consistent with the advice they have provided. We are also seeking representation from the Section 151 Officer on this matter and, subject to receiving this, we anticipate being able to conclude that the provision of £26.5 million is reasonable and meets relevant financial reporting standards.

Investment in Birmingham Airport

49% of Birmingham Airport Holdings Ltd (BAHL) is owned by seven local councils - Wolverhampton, Coventry, Dudley, Sandwell, Solihull, Walsall and Birmingham. Birmingham City Council is the largest ordinary shareholder with 18.68%. Wolverhampton City Council owns 4.7% of the ordinary shares.

The valuation of your shareholding was £18.6 million in your 2011/12 accounts, based on a valuation performed last year. A new valuation was commissioned, showing your share should be valued at £18.9 million. You have not updated your accounts to reflect the £0.3 million change in valuation.

In satisfying ourselves that the new valuation is materially accurate we have consulted with our airport valuation experts and:

- Considered the outcome of the updated valuation review undertaken by Solihull MBC in conjunction with BDO, on behalf of the Council;
- Reviewed the valuer's assumptions and concluded that the valuation was prudent, based on a number of factors, including regulation, capacity for expansion, economic and sector conditions and earnings potential; and
- Confirmed that a new side agreement (which restricts the sale of shares by all seven stake-holding councils) is in place until 2022.

Your Pension Fund assets and liabilities are one of the most significant items in your Statement of Accounts. The net pension liability was £551.8 million as at 31 March 2013, an increase of 24% from the previous year.

The letter of representation asks you to confirm that there is no other information that should be taken into account, and that you are satisfied with the valuation. Because the difference in valuation is, technically, an error identified during the audit that has not been adjusted by management, we raise this issue in Appendix 1 and formally request that you consider whether you would wish the accounts to be amended.

Should you consider selling your stake in Birmingham Airport, you should commission a thorough up to date valuation.

Accounting for Academy Schools

The most important factors in transfers are:

1) the *timing* of when to de-recognise assets from the Council's balance sheet when they are transferred to academies; and
2) how to put an appropriate *value* on assets that have historically been valued as operational schools when there are no plans to use the assets as schools in the near future.

Our work identified three instances where the treatment was not consistent with the relevant accounting rules.

Two schools were transferred in previous years so a prior year adjustment has been made.

The third exception relates solely to the timing of when new academy school assets had been derecognised. Accepted accounting practice is that ownership of school assets transfers on conversion to academy status and not on completion of building schemes. As a result, the Council has now removed the assets from the opening balance sheet and amended the prior year accounts for the associated capital expenditure in the previous year.

The overall impact of correcting theses errors was to reduce the brought forward PPE value, and brought forward reserves, by £46.9m and to reduce the 31 March 2013 PPE value by £31.3m with a corresponding reduction in unusable reserves carried forward.

None of these adjustments has any impact on the General Fund.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the West Midlands Pension Fund.

The accounts currently reflect the March 2010 triennial Pension Scheme funding review. Between reviews, the movement in assets is estimated using a "roll forward" approach, adjusting for known trends. Your net pension liability at 31 March 2013 was £551.8m (2012 - £443.4m).

The value of your pension assets has risen by 11% over the year to £0.75 billion and your pension liabilities have increased by 16% to £1.3 billion.

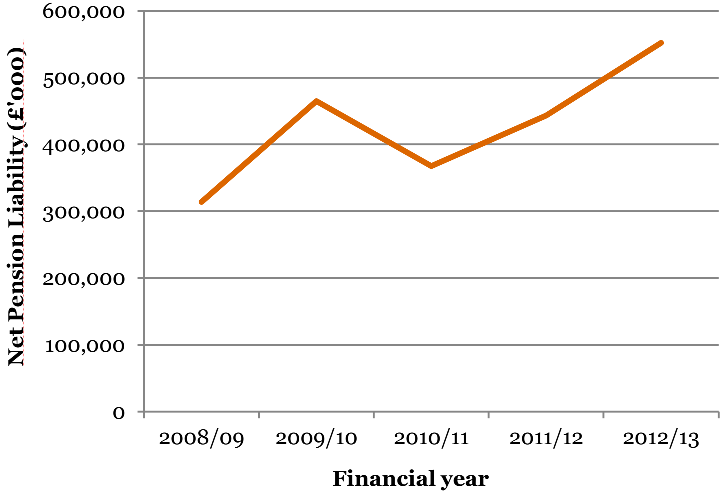
The 2013 triennial valuation is yet to be concluded and will be reflected in the 2013/14 Statement of Accounts. The deficit for the Local Government Pension Scheme as a whole is expected to have increased from £38bn to £80bn since 2010.

Although assets increased in value in this period by 20%, the value of the liabilities has increased by more than 40% as these are linked to gilt prices which are at an all-time high.

The chart below shows the significant movement in your net pension liability over the last few years.

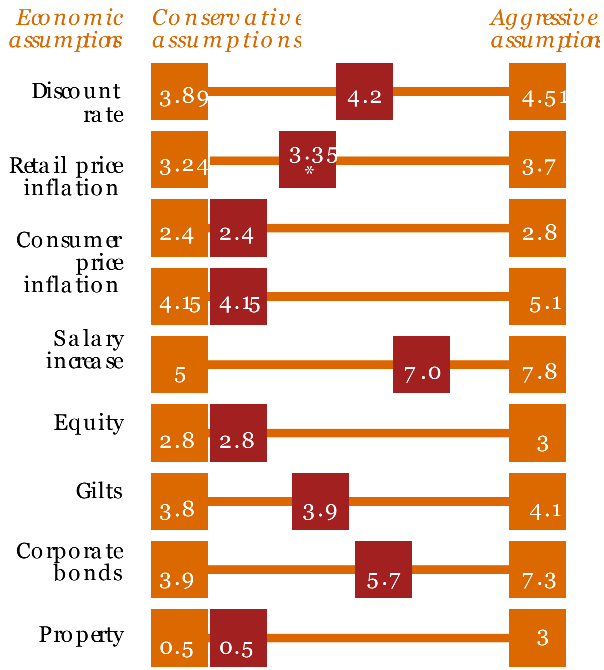
We used the work of our own experts to assess the assumptions made by your actuary. We found the assumptions you have used to be reasonable.

Council Pension Liability between 2007/08 and 2012/13



We reviewed the reasonableness of the liability assumptions, and we are comfortable that the assumptions are within an acceptable range when compared with both our general expectations as at 31 March 2013 and with the assumptions being used by various actuaries associated with other Local Government Pension Funds:

Analysis of the assumptions being used by other actuaries:



* - indirect calculation

The LGPS actuary is provided with details of scheme membership to calculate the figures for the accounts. We validated the data supplied to the actuary on which to base their calculations.

There are some changes to the accounting standard for Employee Benefits (IAS 19) for 2013/14.

Your actuary has estimated that if those changes had been applied in 2012/13, the deficit on provision of services would have increased by £7.9 million.

We are required to tell you about all misstatements we have identified that management have chosen not to amend the accounts for. A summary of these is included in Appendix 1.

Changes to IAS 19: Employee Benefits

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used. The net scheme liabilities/assets will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

The 2012/13 accounts need to include disclosure of standards issued but not adopted and estimates of their likely financial effect. As a result, estimates of the impact of IAS 19 (Revised) have been obtained from the actuary. The impact on the Council in 2012/13 would have been to increase the Deficit on the Provision of Services by £7.9 million. It is anticipated that the change in requirement will have no impact on the net pension liability.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. Please refer to Appendix 1 for details.

We also bring to your attention misstatements that have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities. We have included all such misstatements in the section 'Accounting Issues' above.

The overall impact of these adjustments to the draft accounts presented to the Audit Committee is summarised below:

Accounts heading (Council figures for 2012/13 or 31 March 2013)	June 2013 financial statements (£'000)	Total net adjustment (£'000)	Latest financial statements (£'000)
Net cost of services	319.2	2.1	321.3
Total Comprehensive (Income) / Expenditure	237	-12.1	224.9
Net assets	396.6	-25.8	370.8
General Fund	15.9	0	15.9
Usable reserves	-128.8	0	-128.8
Unusable reserves	-267.8	25.8	-242

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask the Section 151 Officer to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

As part of preparing the accounting, management make a number of judgements and accounting estimates.

During our audit we review and challenge management on these judgements. We consider whether they are reasonable in light of the information available.

We found that management has made materially appropriate judgements in preparing the Statement of Accounts.

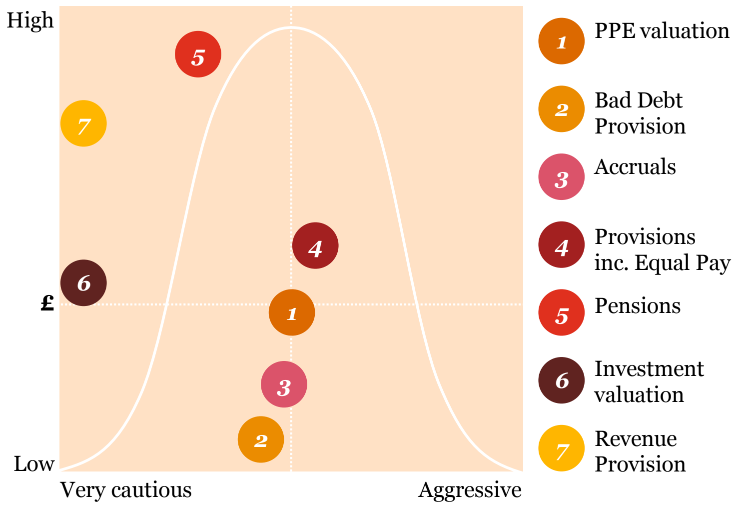
Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the Statement of Accounts:

- **Property, Plant and Equipment - Depreciation and Valuation -** You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves some judgement and reliance on your internal valuers. You have estimated the value of your housing stock using beacon principles and guidance issued to you by DCLG.
- **Bad Debt Provision** – Your Bad Debt Provision for sundry debtors is calculated on the basis of age and an assessment of the potential recoverability of invoices. There is an inherent level of judgement involved in calculating these provisions.
- **Accruals -** You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation.
- **Provisions**: Provisions are liabilities of an uncertain timing or amount and therefore there is an inherent level of judgement to be applied. Your equal pay provision is your most significant provision and has been considered above.
- **Pensions:** See above. You rely on the work of an actuary in calculating these balances.
- **Investment valuation -** You have estimated the value of the Council's investment in Birmingham Airport based on information provided by partners and valuation experts. We have also considered this above.
- **Minimum Revenue Provision –** You have determined a prudent method of calculating MRP that allows you to redeem your debt liability over a period which is expected to be equal to, or shorter than the period over which the capital expenditure is estimated to provide benefits. There is a degree of estimation involved and your provision is relatively prudent.

We will ask you to represent to us that you are satisfied with the assumptions made in arriving at these judgements and estimates in the accounts.

We outline below a summary of our view of the key accounting judgments applied by management:



We have previously raised concerns about the level of surpluses recognised in the financial statements relating to trading accounts.

We reviewed the work undertaken by management to ensure that overheads have been adequately treated and disclosed.

Supplementary matters

Trading accounts

For the last two years we have reported that your trading areas, particularly catering and cleaning services, were consistently reporting large surpluses. Although not material to our audit, they are of concern because surpluses essentially transfer resources between services. We asked for this to be reviewed in a previous year.

The draft 2012/13 again disclosed surpluses on trading accounts. We satisfied ourselves that the method used to ensure that income and expenditure recorded by service area was appropriate and mitigated the risk of cross-subsidies between services from internal trading. This method has been in place since 2011/12.

Although the correct amounts were disclosed for each service area in the Comprehensive Income and Expenditure Statement the same approach had not been applied in the draft accounts to Note 2A – Trading Operations. The accounts have now been amended. There is no impact on the underlying accounting records or financial position as this is a disclosure note only.

We ask management to send us a letter of representation before we sign our audit opinion. A draft of that letter is included in Appendix 3.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 3.

This includes specific representations to confirm that:

- The Equal Pay provision represents the Council's best estimate of the most likely future costs to the Council and that no other additional or contradictory advice has been received and not shared with us.
- The inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate.
- The Council has considered indicators of impairment and is satisfied that there are no indicators that the Council's asset base has been materially impaired.
- The Council is satisfied that using Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account is reasonable.
- The general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.
- The Council's new policy for calculating Minimum Revenue Provision and for splitting interest cost between the HRA and General Fund is appropriate, prudent and compliant with relevant Capital Finance and Accounting Regulations.
- All schools that have transferred to Academy status have been removed from the appropriate balance sheet. All current school assets for which the future use is unknown have been valued at the most appropriate market value. No decisions have been taken about the future use of school assets that have not been reflected in their valuation.

Going Concern

We are required to report to you if we identify any events or conditions that may cast significant doubt that your financial position should enable you to '*continue to operate for at least the foreseeable future*'. The definition of 'foreseeable future' for this purpose is 12 months from the date of the auditor's report on the relevant set of financial statements.

We have not identified any material uncertainties relating to events and conditions that may cast significant doubt on your ability to continue for the foreseeable future. The use of the going concern assumption is appropriate in the preparation and presentation of the financial statements. This view is informed by the Council having:

- a strong net asset position of £396.6 million (pre-audit);
- demonstrated a continued ability to generate strong operating cash flows, with a net inflow of £52.2 million (pre-audit)
- a positive cash balance at year end of £3.5 million (pre-audit) and sufficient funds to meet forecast demand over the year;
- a higher than average level of reserves (general and earmarked) when compared with similar authorities;
- a generally good track record in recording surpluses and achieving financial targets, having identified savings totalling almost £100 million over the last five financial years despite facing difficulties in 2012/13;
- a balance of £6m in the Efficiency Reserve that is not yet committed;
- a strong 30-year HRA Business Plan that is not expected to draw on general fund reserves;
- banked £6.6 million of the 2013/14 savings target of £17.3 million with a further £7.8 million having been estimated with a high level of confidence; and
- a programme in place to take steps over the coming months to address the medium term funding shortfall.

To continue to be able to demonstrate that you have sufficient resources available to meet your commitments in the short term we think it is essential that you:

- Focus on translating the £7.8 million of 2013/14 savings that are estimated with a high level of confidence into realised, measurable savings and continue to identify opportunities to deliver the remaining £2.9 million from the initial savings target.
- Continue to deliver additional one-off savings during 2013/14 to address the currently projected over spend in 2013/14 and reduce the call on the General Fund balance. This cannot be overlooked as efforts are turned toward the 2014/15 budget and the MTFS.
- Ensure that the cost pressures in Children, Young People & Families are very actively monitored and reported accurately.

Our work on financial standing has also identified a number of areas of concern that put the Council's longer term financial standing at risk if not managed effectively. Please refer the section *'Economy, efficiency and effectiveness'* for more details.

We are required to demonstrate our independence by professional standards. Maintaining our independence is important to us in delivering you a robust external audit.

We have considered a range of factors to demonstrate our independence as auditors, including the provision of non-audit work.

We have concluded that we are independent and comply with the relevant UK regulatory and professional requirements.

Audit independence

We are required to tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams whose work we intend to use when forming our opinion on the truth and fairness of the Statement of Accounts.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.

Employment of PricewaterhouseCoopers staff by the Group

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Group.

Services provided to the Group

The audit of the consolidated financial statements is undertaken in accordance with the UK Firm's internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the consolidated financial statements, PwC has also undertaken other work for the Group. We confirm our independence and overall assessment of threats and safeguards in the 'fees' section below.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2012 is included on page 18. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years.

The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level.

Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve auditors for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

We have not exceeded the maximum five year initial cap on this engagement.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of the Council or Group's board, senior management or staff.

You are required to produce an Annual Governance Statement (AGS). We reviewed your AGS and found no areas of concern to report.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

In 2011/12 we identified that future versions of the AGS ought to contain:

- a more detailed action plan for the significant governance matters identified; and
- a clearer statement as to what extent the Council's systems of internal control include Wolverhampton Homes whose significant activity falls within the Council's group boundary.

We reviewed an early draft of the 2012/13 AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework; whether it was misleading or inconsistent with other information known to us from our audit work; and whether it addressed our prior year recommendations.

We made some recommendations to management on how the statement could be further improved when assessed against good practice and these were adopted by management.

We found no areas of concern to report in the final AGS and concluded that The Statement, which has been presented in a new format this year, contains all of the additional pieces of information required.

We also understood the risk identification process that was used to produce the statement and considered whether any governance issues appear to have been omitted. We did not identify any significant omissions and will re-consider this as part of our completion procedures prior to the conclusion of the audit.

As part of our value for money work we reviewed your Medium Term Financial Strategy. Our detailed findings were reported to you at the meeting in June 2013. We have summarised our findings on this page.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We also determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. Our audit plan identified the following particular areas of focus:

- Savings plans and the Medium Term Financial Strategy (MTFS);
- Single Status implementation;
- Shared Services Transformation Programme *(replaced by FutureWorks)*;
- Restructuring costs; and
- Procurement follow up.

The main points of our work in these areas are detailed in the table below. Below the table we provide a summary of our conclusions on your financial standing is included here.

Conclusion

We anticipate issuing an unqualified value for money conclusion.

Area of focus from risk assessment	Work undertaken and conclusions
Savings Plans and the Medium Term Financial Strategy The Council has recently updated its Medium Term Financial Strategy (MTFS). This shows that (before new savings proposals are taken into account) the projected cumulative budget deficit amounts to £59.18 million over the next five years and this already assumes the successful delivery of savings amounting to £38.630M over five years and £28.517M over the next two years. This represents a significant financial challenge. We also note that the 2013/14 budget is in balance only after the use of £3.716m of general balances and the successful delivery of £17.3m of savings. There are a number of significant risks associated with the 2013/14 budget and the wider MTFS including: • Identified savings options may not be achieved; • Further efficiency savings may not be identified; • Spending may exceed budgets and/or income may fall short of budgets; • Inflationary pressures may increase, • Demand for council services may exceed estimates; and • Future finance settlements may vary from current assumptions. Effectively managing the above risks is critical to the Council's future financial resilience and therefore a key part of our assessment on your	We met regularly with the Section 151 Officer and the Chief Executive to discuss the Council's financial position and plans. We reviewed in-year finance reports to identify any issues and considered their impact on budgets and plans. We reviewed your updated MTFS and its key assumptions. We benchmarked the assumptions you made in the following areas against our national portfolio of audit clients: • Pay Inflation • Non-Pay Inflation • Council Tax increases • Future Government Grant assumptions • Use of general reserves • Level of general reserves • Level of earmarked reserves • Growth pressures • Efficiency targets • Capital spending profiles On the basis of this work we have concluded that the key assumptions supporting your MTFS are broadly consistent with those seen elsewhere in the sector, and whilst there are some notable deviations the assumptions employed appear reasonable and acknowledge the scale of the financial challenge presented. In those areas where assumptions appear less prudent than our benchmark sample you have subsequently revisited the appropriateness of those assumptions in light of updated information, and have adapted your forecasts accordingly. **We have identified no areas where further risk based audit work is required at this time regarding the assumptions in your MTFS and have prepared a more detailed report on this which we are due to**

Area of focus from risk assessment	Work undertaken and conclusions
arrangements for securing economy, efficiency and effectiveness in the use of Council resources.	**present at the September Audit Committee.** **We have highlighted concerns regarding the size of the financial challenge you face in the section '*Financial standing*' above.**
Single Status implementation At the time of drafting our annual audit plan the Council had not yet implemented an affordable Single Status pay agreement The Council is continuing to work toward reaching and implementing an agreement and a number of key activities and decisions are due to take place prior to the date we expect to issue our VfM conclusion. These activities and decisions could impact our VfM conclusion.	We identified that if the Council failed to reach a Single Status agreement in readiness for the 2013/14 financial year we would need to consider the impact on our VfM conclusion. We kept abreast of developments through regular meetings with senior Officers and through review of relevant documentation to monitor progress made throughout the year. We are pleased to note that the Council reached a negotiated agreement with the recognised Trade Unions to implement the National Single Status Agreement; a binding collective agreement and implemented the new structure with effect from 1 April 2013. We have reviewed the documentation supporting the key stages of the decision making process and have not identified any breaches of the Council's own policies and procedures nor any instances of legal advice being overlooked. **We have not identified any significant indicators that value for money has not been achieved by the Council and have concluded that no amendment is required to our VFM conclusion.**

Area of focus from risk assessment	Work undertaken and conclusions
Shared Service Transformation Programme *(replaced by FutureWorks)* The Council has a very old IT system. Various options for replacement are being sought which could have a significant impact on the accounting arrangements and on value for money at the Council. At the time of drafting our Audit Plan the programme team was focussed on the procurement phase of the Transformation Programme. The team was expecting to sign contracts with the future supplier on the 1st April 2013. The team divided the procurement phase into a number of stages in order to appropriately evaluate any potential suppliers. The team has involved a number of stakeholders, including legal advisors. An assurance framework for the procurement phase was drafted. Procurement exercises of this nature pose a number of risks that need to be carefully managed.	We carried out an audit 'health check' of the Shared Services Transformation Programme in March and April of 2013. The scope of this review was to consider the Council's programme management controls as at 30 March 2013. Our work specifically focused on the overall programme structure, the Council's assurance framework and controls over the procurement phase of the programme. We reviewed key project documentation and discussed progress with the Programme Team. **We concluded that as at April 2013 the Council had good programme and risk management arrangements in place for the procurement phase of the Shared Service Transformation Programme but that more needs to be done to clarify and formalise its future assurance needs for the delivery phase.** *We will re-visit the programme this summer for a short, high level review to ensure the robust programme management approach is being maintained post getting the supplier is on-board.*
Restructuring costs The Council has incurred costs relating to restructuring and staff changes during 2012/13. We consider the risk of materially misstating these costs to be very low. However, we are required to consider whether the settlements in aggregate or the governance process surrounding the payments would impact our VfM conclusion.	We understood and evaluated your arrangements for ensuring that individual financial settlements represent value for money and comply with your own regulations regarding decision making. We obtained a complete listing of financial settlements reached in year and sample tested these payments to ensure that policies were adhered to. In particular we ensured that there was • evidence of legal involvement; • a signed official agreement; • appropriate authorisation sought for each of the cases and that authorisation was in line with the constitution limits; • evidence of a sound business case;

Area of focus from risk assessment	Work undertaken and conclusions
	• evidence of following legal advice where received; and • there was appropriate involvement of Human Resources support the business case. **We concluded that adequate procedures were in place that had been followed in each case without exception.** **We considered the level of severance payments in totality and concluded that these should not impact our value for money conclusion.**

Area of focus from risk assessment	Work undertaken and conclusions
Procurement follow up The Council has a significant savings target over the medium term that will be a huge challenge to meet. Success is, in no small part, reliant on procurement savings and although we concluded in prior year that the Council had made some progress we did identify that further work was required to deliver significant savings and that the Council should renew its efforts to improve its procurement related processes and performance. We also recommended that the Council's Internal Auditors undertake a follow up review of its previous findings in this area; not only to ensure that basic controls are adequate during significant change, but also to ensure that these controls are being complied with in practice. We understand that Internal Audit is revisiting this area during the 2012/13 financial year. The Interim Head of Strategic Sourcing has since produced a number of reports that have identified further shortcomings associated with the Contracts Database, the use of e-shop, external consultancy support and the viability of planned procurement savings projections. Delays in implementation of procurement initiatives and reductions in the related assumptions about what can be achieved are reflected in the latest MTFS but further slippage or failure to meet savings requirements is a significant risk to the Council that needs to be well managed.	We have discussed the Council's progress in delivering its plans to achieve the vision of having a more proactive procurement service which acts a key strategic partner to the Council. We are aware that significant steps have been taken to develop the Council's procurement systems and its processes. For instance the team's internal procedures have been overhauled and a new (fully automated and integrated) tendering management tool will go live in November 2013. Steps have also been taken to develop the team with granular performance management information (regarding commitment and utilisation statistics) being available for the first time. There are some signs of improved performance. In terms of improved compliance we understand that members are no longer requested to approve exemptions to the application of tendering rules. We are also aware that efficiency savings have been made. This area however clearly remains a work in progress - and management recognise that there is some way to go still. Delivering improvements in procurement forms part of the Council's broader transformation agenda – implementation of the new Agresso system will deliver a new system and also some procurement staff (and responsibilities) will move to the Transaction Hub next year. Progress on procurement matters should not therefore be considered in isolation from this broader agenda and there is clearly lots of change for the Council to manage over the coming months across this agenda. In terms of key next steps we understand that the new Procurement Code is due to be considered for approval by Cabinet over the coming weeks and that the Procurement Team will be focused on getting these and other developments in place and embedded. **We will maintain a watching brief on this area, but have concluded at this stage that no further detailed work on this area is appropriate.**

Financial Standing

In our audit plan we highlighted the significant financial challenge facing the Council as a specific audit risk and have summarised our findings on the detail of your Medium Term Financial Strategy (MTFS) in this report against that risk as well in a separate report to this Committee. A broader view of your financial challenge makes reaching a positive conclusion on your financial standing increasingly difficult. As you have highlighted in your recent communications to staff, the Council cannot make up the budgeted difference in funding from reserves because 'if you carry on as [you] are by April 2015 those reserves will have been reduced to an unsustainable level.'

Below we highlight areas where further work is needed over the coming 12 months for us to continue to assess the Council as complying with Audit Commission guidance regarding our value for money code responsibilities.

Budgetary control

We were surprised and concerned that the Council overspent against its General Fund budget by £3.6m in 2012/13. This variance exceeded the £2.5m forecast at the third quarter of £2.5m, which we understand was considered to be a prudent estimate. A number of variances were recognised between quarter three forecast and actual outturn position across directorates; most notably within the Delivery and Education and Enterprise. This appears to have been primarily due to the incorrect classification of certain items of expenditure as 'non-controllable' when they should instead have treated as 'controllable'. As a result of this misclassification the budgetary control and monitoring and reporting of spend in this area was lacking and significant variances against these budgets were overlooked by both budget holders and service accountants.

Internal Audit are currently performing two separate reviews in relation to the 2012/13 budget over spend, on recharging for Property Services and Education and Enterprise recharges. We eagerly await the outcome of these reviews and will consider the effectiveness of management's actions to address any issues identified. As a minimum, we think it is essential that weaknesses in budget monitoring are addressed immediately and that more regular monitoring of such expenditure is introduced.

Taking a radical approach to service provision

To continue to be able to demonstrate that you have sufficient resources available to meet your commitments for a longer period we think it will be of paramount importance that the Council:

- continues to consider a broad range of alternative service delivery models where appropriate. We understand that a range of options are currently being explored and this must continue as the 2014/15 budget and MTFS are developed; and
- works together to ensure there is a strong consensus about the need for change. Cuts in Government funding mean that it is no longer possible for the council to carry on with 'business as usual' so tough decisions will need to be made and previously unpalatable options will need to be considered thoroughly including scaling back those activities which don't make a clear contribution to Corporate Plan priorities.

Information for decision making

To be able to make the most appropriate decisions for your local circumstances it is vital that the Council:

- is able to make tough decisions on cost reductions and cuts based on robust information on costs and cost drivers. Officers must ensure that sufficient information is available to make informed and rounded decisions based on thorough cost-benefit analysis and options appraisals. Improvements have been made in this area but there is further work to do to improve productivity based on thorough investigation and interpretation of benchmark data including data on unit costs. This data may serve as a useful consideration during the coming round of resource prioritisation discussions; and

- continues to develop an understanding of its cost base and unit costs. This should help you to make informed decisions on which areas have the greatest opportunities to make savings and may inform decisions on which areas to invest more effort in.

Managing the financial impact of the redundancy programme

The Council is planning a significant programme of redundancies in 2013/14, accompanied by restructures and business reviews. We absolutely recognise the need to consider reducing your pay bill considering non-schools General Fund services have an associated pay bill of £140m per annum of your £256m net budget requirement. We also recognise that the Council has a number of reserves which could be utilised to support the upfront costs of such a scheme. However, we note that the use of general fund reserves during 2013/14 is highly likely. Member approval must be obtained for any reduction in the General Fund below the £15m current required by your own reserves policy. It is imperative that once all upfront costs and longer term savings are taken into consideration you are still able to demonstrate the ability to set a balanced budget with an appropriate level of reserves.

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Internal controls

Accounting systems and systems of internal control

We have considered the control issues identified during the audit and while we have concluded that no issues were identified that would materially impact on our accounts audit, we have set out in the section below a small number of recommendations in relation to control issues identified during the year.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention. We identified no material control weaknesses, however we wanted to bring your attention to the following:

Summary of significant internal control deficiencies

Deficiency	Recommendation
Valuations Land values are determined in accordance with site acreage and building values are calculated based on gross internal floor areas. Accordingly, it is important that this data is complete and accurate at each balance sheet date. At present this is not achieved which may result in over- or under-statement of the balance sheet. This is particularly relevant to schools, for which works are regularly being carried out, but applies to all asset types.	There is a need for the property and asset management teams to carry out a data validation exercise before every valuation and again at the end of the financial year to ensure that any increases or reductions in and or building size are recorded on a timely basis. This ought to include liaison with the Building School's for the Future team but may require consultation with other relevant departments within the Council who hold up to date information on the Council's assets.
Academies We identified a small number of assets relating to academy schools that: • remained in the balance sheet after they should have been written out; or • were overvalued as a result of not being revalued to reflect the change in the future use of existing assets.	There is a need to strengthen procedures to ensure that the finance, property and valuation teams share a common understanding of what the accounting requirements are for assets associated with academy schools. A policy should be drafted and clear accountability defined to ensure that the valuation team is:

There seems to be a lack of clarity regarding which assets need to be revalued, when and on what accounting basis.	• aware of any changes in use of school assets; • aware of any milestones being reached on any academy conversion or new build progress; and • clear what the accounting rules require.

We ask that the Audit Committee, as those charged with governance, confirm to us that there are no additional matters relating to fraud that should be brought to our attention.

As part of work to address the risk of fraud, we use auditing techniques to select journal entries which we believe have a greater risk of containing fraud or error.

We identified no issues to report to you as part of this work.

Risk of fraud

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

During the year the Council has informed us of a small number of matters of actual and/or potential fraud which have been investigated by Internal Audit. We have considered these matters and the course of action taken in response to them by the Council and have identified no issues or concerns to report in this context.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Although it is not our primary responsibility to detect fraud, our audit procedures seek to identify material misstatements resulting from fraud. We included two fraud risks in our audit plan and summarised our audit findings in the section 'Audit Approach'.

Our fee proposals were included in our 2012/13 Audit Plan which we reported to you in January 2013.

At that time our Audit Plan noted that due to the degree and pace of change within the Council and the importance of achieving change in a safe and controlled way, additional audit support would be required to address additional risks.

Fees update

Fees update for 2012/13

We reported our fee proposals in our plan. Our actual fees are expected to be in line with our proposals:

	2012/13 outturn	2012/13 fee proposal	2011/12 outturn
Statement of Accounts (including whole of government accounts) and Value for Money Conclusion	251,100	251,100	418,500
Work on additional risks	65,800	65,800	72,000
TOTAL	**316,900**	**316,900**	**490,500**

Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance by March 2014 within the Grants Report to Management in relation to 2012/13 grants.

Non audit services

In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided a small number of non-audit services which fell outside of the Code of Audit Practice.

These services, and the associated fees (excluding VAT), were:

- Accelerated Asset Review – Phase 4, Stage 1 office workstream pre-tender planning. The fee for this work during 2012/13 was £36,000.
- Exploring New Financial Models to Invest in Housing. The fee for this work was £9,000.

We confirm to you that we have appropriate safeguards in place to maintain our audit independence.

Appendices

We are required to report to you all uncorrected misstatements we have identified.

If the accounts remain unadjusted for this item, we will need a written representation explaining why.

A proposed letter of representation is included in Appendix 2 to this report.

Appendix 1: Summary of uncorrected misstatements

We found the following error during the audit that has not been adjusted by management. You are requested to consider this formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from the Council explaining your reasons for not making the adjustment.

No	Description of misstatement	Income statement		Balance sheet		Management comment
		Dr	Cr	Dr	Cr	
1	**Valuation of Birmingham Airport investment** Dr Non Current Investments Cr (Surplus) or Deficit on Revaluation of Non-Current Assets Wolverhampton City Council owns 4.7% of the ordinary shares in Birmingham Airport Holdings Ltd. The measurement basis for this investment is 'Fair Value'. In order to ensure an accurate fair value is used at each balance sheet date the Council receives an annual valuation from a third party provider. The valuation for 31 March 2013 was received after the draft 2012/13 accounts had been produced. The valuation indicated that the most accurate valuation for the Council's shares had risen by £283k from last year to a new valuation of £18,903k. The valuation in the final accounts has not been amended so remains at £18.6m. *NOTE: This amendment, if made, would have been reversed out of the Total Comprehensive Income and Expenditure position as a required 'Adjustment between Accounting Basis & Funding Basis under Regulations' so that there would have been no net impact on the tax payer.*		283	283		The revised estimate is materially similar to the value in the draft accounts. We understand that none of the other Councils are amending for the update so our decision is consistent with all the other Councils.
	TOTAL	**0**	**283**	**283**	**0**	

The total impact of unadjusted audit misstatements on the CIES would have been to reduce the deficit by £283k.

We have issued a number of reports to those Charged with Governance relating to our 2012/13 audit. These are summarised here.

Appendix 2: Audit reports issued in 2012/13

The following table outlines the audit reports that have been issued or are due to be presented in year:

Stage of the audit	Output	Date
Audit planning	**Audit Plan**	March 2013
Audit findings	**External audit update report** • Audit Progress update • Control weakness and audit findings to date • Communications about fraud risk	June 2013
VfM findings	**Medium Term Financial Strategy report** • Analysis of key assumptions in your MTFS • Comparisons to our other External Audit clients • Summary of findings that feed our value for money conclusion	August 2013
Audit reports	**ISA (UK&I) 260 report incorporating specific reporting requirements, including:** • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures. • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value	September 2013

	for money conclusion.	
Audit reports	**Financial Statements opinion including Use of Resources conclusion**	September 2013
Other public reports	**Annual Audit Letter** A brief summary report of our work, produced for Members and to be available to the public.	November 2013

There are a number of matters on which we are required to ask for a written representation.

A draft letter of representation is included in this appendix.

Appendix 3: Letter of representation

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Dear Sirs

Representation letter – audit of Wolverhampton City Council's (the Council) statement of accounts for the year ended 31 March 2013

The Council is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together "the group").

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Council and the group give a true and fair view of the state of affairs of the Council and group as at 31 March 2013 and of the deficit and cash flows of the group for the year then ended have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13.

Subsequent references in this letter to "the Statement of Accounts" refer to both the statement of accounts of the Council and the consolidated statement of accounts of the group.

I acknowledge my responsibilities as the Assistant Director Finance (Section 151 Officer) for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Council and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Council and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the statement of accounts.
- Significant assumptions used by the Council and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the statement of accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter.

Information Provided

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Council's auditors, are aware of that information.

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other matters, including minutes of the Council and its committees, and relevant management meetings;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Council’s and the group’s accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Council's and the group’s particular circumstances.

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

- the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the statement of accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Council and group's statement of accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing statement of accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council and the group conducts its business and which are central to the Council's and the group's ability to conduct its business or that could have a material effect on the statement of accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the statement of accounts.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

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

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the Council and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Council and the group have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2013, have been taken into account or referred to in the statement of accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2013 have been properly valued and that valuation incorporated into the statement of accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Council, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the statement of accounts have been disclosed to you.

Pension fund registered status

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Accounting Estimates

Regarding accounting estimates that were recognised in the financial statements:

- The Council has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13;
- Measurement processes were consistently applied from year to year;
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- Disclosures related to accounting estimates are complete and appropriate under the Code; and
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Financial Instruments

All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the consolidated financial statements. The provision of £26.5 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.

This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you.

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

Investments

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

- this materially reflects the latest valuation of the Ordinary Shares and preference shares provided as at the balance sheet date as provided by Solihull Council and BDO (£18.9 million versus prior year £18.6m).
- there remains in place a side agreement which restricts the sale of shares by all seven stake-holding councils and therefore, whilst the valuation given provides a best estimate of a price that could be achieved on the open market, the restrictions mean that the open market value (OMV) is always likely to overstate the value that any Council would actually be willing to pay. This is deemed particularly significant in the current economic climate when there is unlikely to be any Council with sufficient spare resources to purchase an additional share in the Airport - especially at an OMV;
- the terms of the work had been agreed by all relevant Appointed Auditors;
- the methods followed are reasonable given the requirements of the Code; and
- the findings are fed by a number of factors and because many of these are judgements, every valuer is bound to make different assumptions but the assumptions taken do not appear unreasonable.

Using the work of experts

I agree with the findings of Solihull Council and BDO, experts in evaluating the Airport Valuation, regarding their valuation of our share of Birmingham Airport Holdings Ltd and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Valuation of Property, Plant and Equipment

I have considered indicators of impairment for our Property, Plant and Equipment asset based and am satisfied that there are no indicators that the Council's asset base has been materially impaired.

Depreciation of housing stock

The Council has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

Completeness of Fixed Asset records on the General Ledger

I am satisfied that the general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.

Revenue provision

I am satisfied that our revised methods for determining an annual revenue provision, and for splitting interest cost between the HRA and General Fund are appropriate, prudent and compliant with the requirements of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4).

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Subsequent events

Other than those already disclosed, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Accounting for Academy Schools

All schools that have transferred to Academy status have been removed from the appropriate balance sheet. All current school assets for which the future use is unknown have been valued at the most appropriate market value. No decisions have been taken about the future use of school assets that have not been reflected in their valuation.

As minuted by the Audit Committee at its meeting on 23 September 2013

....

Assistant Director Finance (Section 151 Officer)

For and on behalf of Wolverhampton City Council

Date ....

130610-142627-JA-UK

Agenda Item No: **8b**

Audit Committee

23 September 2013

Report Title	**Medium Term Financial Strategy Review – Report of PricewaterhouseCoopers**
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources
Accountable Strategic Director	Keith Ireland, Delivery
Originating service	Delivery

Accountable officer(s)	Mark Taylor	Assistant Director - Finance
	Tel	6609
	Email	Mark.Taylor@wolverhampton.gov.uk

Recommendations for noting:
The Committee is asked to note:

1. The report prepared by PricewaterhouseCoopers on the Medium Term Financial Strategy of the council

1.0 Purpose

1.1 PricewaterhouseCoopers (PwC) as the Council's external auditors are required to assess the arrangements for securing economy, efficiency and effectiveness in the use of resources. As part of their work in this area they have undertaken a review of the Council's Medium Term Financial Strategy (MTFS). This focused on testing the assumptions that underpin the MTFS:

- inflation;
- spending reductions on savings;
- formula grant allocation;
- council tax, and;
- use of reserves.

1.2 They have taken into account the Council's recent track record of:

- setting realistic budgets;
- delivering services with budget;
- delivering planned savings targets;
- monitoring adequate levels of reserve balances.

1.3. PwC's conclusions are outlined in the attached report;

- the assumptions used in Wolverhampton's MTFS are broadly in line with other authorities;
- they have not identified any significant concerns;
- they have not identified any issues that would impact on their value for money conclusion.

2.0 Financial Implications

2.1 The report provides assurances on the arrangements the Council has in place to ensure effective stewardship and accountability for resources at a time of unprecedented financial pressures.

[CF/18092013/I]

3.0 Legal implications

3.1 Statutory authority for the external auditor role set out in paragraph 1.1 of this report which provides external accountability and control is currently contained in the Audit Commission Act 1998.

[JH/18092013/X]

4.0 Equalities implications

4.1 There are no equalities implications arising from this report.

5.0 Environmental implications

5.1 There are no environmental implications arising from this report.

6.0 Schedule of background papers

None

Appendix 1

PricewaterhouseCoopers LLP

Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Dear Sirs

Representation letter – audit of Wolverhampton City Council's (the Council) statement of accounts for the year ended 31 March 2013.

The Council is responsible for preparing consolidated statement of accounts in respect of itself and its subsidiary undertakings (together "the group").

Your audit is conducted for the purpose of expressing an opinion as to whether the statement of Accounts of the Council and the group give a true and fair view of the state of affairs of the Council and group as at 31 March 2013 and of the deficit and cash flows of the group for the year then ended have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13.

Subsequent references in this letter to "the Statement of Accounts" refer to both the statement of accounts of the Council and the consolidated statement of accounts of the group.

I acknowledge my responsibilities as the Assistant Director Finance (Section 151 Officer) for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the Council and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Council and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the statement of accounts.

- Significant assumptions used by the Council and group in making accounting estimates, including those surrounding measurement at fair value, are reasonable.

- All events subsequent to the date of the statement of accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.

- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the statement of accounts as a whole. A list of the uncorrected misstatements is attached to this letter.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Council's auditors, are aware of that information.

- I have provided you with:
    - access to all information of which I am aware that is relevant to the preparation of the statement of accounts such as records, documentation and other matters, including minutes of the Council and its committees, and relevant management meetings;
    - additional information that you have requested from us for the purpose of the audit; and
    - unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.

- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Council's and the group's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the Council's and the group's particular circumstances.

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

- the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.

- all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the statement of accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Council and group's statement of accounts communicated by employees, former employees, analysts, regulators or others.

- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing statement of accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Council and the group conducts its business and which are central to the Council's and the group's ability to conduct its business or that could have a material effect on the statement of accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the statement of accounts.

The pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

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

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the Council and the group participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Council and the group have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2013, have been taken into account or referred to in the statement of accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2013 have been properly valued and that valuation incorporated into the statement of accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the Council, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the statement of accounts have been disclosed to you.

Pension fund registered status

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Accounting Estimates

Regarding accounting estimates that were recognised in the financial statements:

- The Council has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13;
- Measurement processes were consistently applied from year to year;
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council, where relevant to the accounting estimates and disclosures;
- Disclosures related to accounting estimates are complete and appropriate under the Code; and
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Financial Instruments

All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the consolidated financial statements. The provision of £26.5 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.
This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you.

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

Investments

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

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As minuted by the Audit Committee at its meeting on 23 September 2013.

....
Assistant Director Finance (Section 151 Officer)
For and on behalf of Wolverhampton City Council

Date ……………………

No	Description of misstatement	Income statement		Balance sheet		Management comment
		Dr	Cr	Dr	Cr	
1	Valuation of Birmingham Airport investment Dr Non Current Investments Cr (Surplus) or Deficit on Revaluation of Non-Current Assets Wolverhampton City Council owns 4.7% of the ordinary shares in Birmingham Airport Holdings Ltd. The measurement basis for this investment is 'Fair Value'. In order to ensure an accurate fair value is used at each balance sheet date the Council receives an annual valuation from a third party provider. The valuation for 31 March 2013 was received after the draft 2012/13 accounts had been produced. The valuation indicated that the most accurate valuation for the Council's shares had risen by £283k from last year to a new valuation of £18,903k. The valuation in the final accounts has not been amended so remains at £18.6m. *NOTE: This amendment, if made, would have been reversed out of the Total Comprehensive Income and Expenditure position as a required 'Adjustment between Accounting Basis & Funding Basis under Regulations' so that there would have been no net impact on the tax payer.*		283	283		The revised estimate is materially similar to the value in the draft accounts. We understand that none of the other Councils are amending for the update so our decision is consistent with all the other Councils.
	Total	**0**	**283**	**283**	**0**	

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Wolverhampton City Council

Government and Public Sector

August 2013

Medium Term Financial Strategy report

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

Use of Resources

Our Use of Resources Code responsibility requires us to perform sufficient and relevant work to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with updated guidance issued by the Audit Commission, in 2012/13 our conclusion will be based on two criteria, whether:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The focus of these criteria will be on whether:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry'. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements. As part of our work in this area we have reviewed your Medium Term Financial Strategy.

Background

On 20 October 2010 the coalition government published the Spending Review 2010, which set out government department budgets for the period 2011/12 to 2014/15. The impact of the reductions in central government funding on individual local authorities in the two final years of this period was finalised in December 2012.

The Chancellor's Autumn Statement was given on 5 December 2012 and described a medium term position characterised by lower than anticipated economic growth and, as a result, higher forecast public sector borrowing requirement. It included the following key headlines:

- Economic growth forecasts were revised down to 1.2% for 2013, 2% in 2014 and 2.3% in 2015.
- The deficit was due to fall from 7.9% to 6.9% of GDP this year, and to continue falling to 1.6% by 2017/18.
- Public sector pay rises would be limited to 1% after the end of the pay freeze in 2013.

In June 2013, the Chancellor released the Government's spending plans for 2015/16, confirming a further £11.5 billion of savings to be identified, in part to fund a number of infrastructure projects. Though the impact of this on individual bodies is not yet known, a total reduction in the Communities budget of £2.6 billion is expected, with a corresponding impact on Council funding in the region of 10%.

Medium Term Financial Strategy

In our audit plan we highlighted the significant financial challenge facing the Council as a specific audit risk. Your Medium Term Financial Strategy (MTFS), approved by Cabinet in January 2013, reflects this challenge; a cumulative budget deficit of £59.1 million is forecast over the five year period to 2018. This forecast also assumes that required savings of £38.6 million are successfully delivered over the same period.

Although a balanced budget is forecast for 2013/14, almost £60 million of additional recurring savings will need to be realised to achieve breakeven over the forecast period, including £16 million during the 2014/15 financial year.

The Council has a good track record in recording surpluses and achieving financial targets. In each of the last three financial years there has been a net contribution to the General Fund balance, and in 2011/12 the Council achieved 100% of its £36 million savings target.

In 2012/13, you have reported an small adverse variance against the 2012/13 budget (a £3.6 million deficit was recorded), and though a good level of savings (£11.5m) were delivered in-year, this fell someway short of initial projections (£21.2 million of in-year savings were initially budgeted), although additional recurring cost reductions have been recorded though updating of the Council's Treasury Management Strategy. Furthermore, there was a significant use of earmarked reserves (£18.9 million additional draw down; primarily reflecting £10 million set aside to fund voluntary provision for the redemption of debt).

These figures provide strong evidence of the additional pressures faced by the Council in the current economic environment.

In 2012/13, the most significant areas of savings included additional NHS funding of health and social care (£1.6 million) review of the Schools Improvement Service (£0.9 million) and restructuring at the Senior Manager level (£0.7 million). Savings identified for 2013/14 total £17.2 million; at the end of July 2013, £6.6 million of this target have been reported as achieved in-year, and all bar £2.9 million of forecast savings had been identified.

We have reviewed your MTFS, including comparing it with other similar plans, to review how you secure financial resilience. The areas of focus for this work have been:

- Assumptions;
- Sensitivity analysis;
- Reserves; and
- Economy, efficiency and effectiveness

Section I: Analysis

Key Assumptions

The MTFS is underpinned by a number of key assumptions. These include:

- Inflation – for both pay and non-pay expenditure;
- Growth – your estimate of future cost and budget pressures from changes in demand and volume;
- Efficiency savings – the level and timing of the savings you need;
- Council tax; and
- Use of reserves.

Each of these assumptions has varying degrees of inherent uncertainty. Assumptions applied to forecasts can often have a significant impact on balancing budgets. You have delivered a significant level of savings over recent years, and though reporting a small deficit for 2012/13, have a track record of strong financial management and achievement of financial targets. In spite of this, the current economic climate is difficult and the future uncertain; with many assumptions required there is an increased risk that one of the influencing factors may vary significantly from the assumptions you have applied.

In the current economic and political climate there are clear difficulties in providing robust medium term forecasts, however contrasting key assumptions with those adopted by comparable organisations can provide a useful sense check of the consistency and robustness of the Council's projections.

We have reviewed key assumptions in your MTFS and compared them to our other External Audit clients. We have also taken into account our wider understanding of the sector, and the Council's financial performance for the year to date. A summary of our findings is included on the following pages.

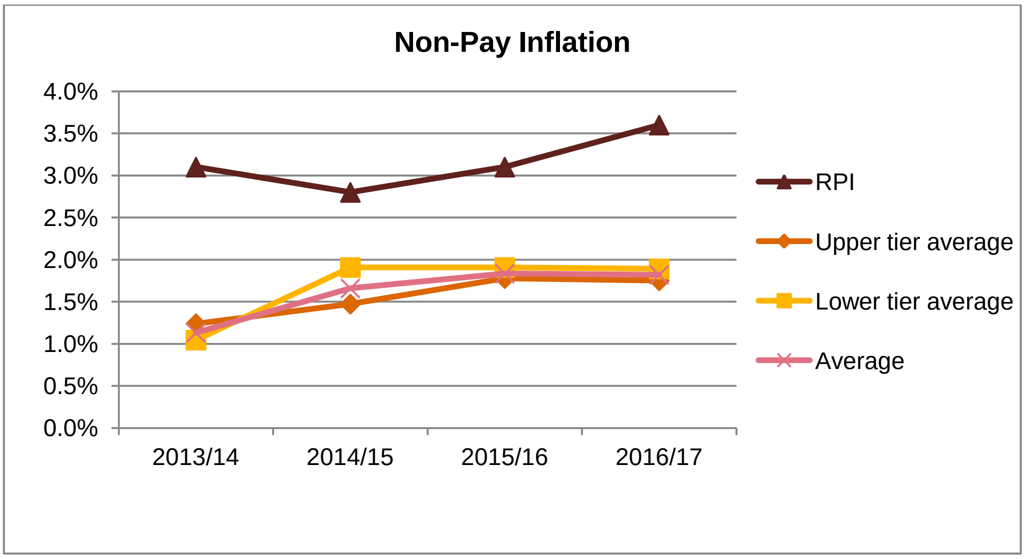
Please note that the majority of figures and analyses within this report reference the MTFS as approved by Cabinet on 26 February 2013. Where relevant we have referenced subsequent updates to the strategy; we have clearly stated where this is the case.

Inflation – non-pay costs

The Retail Prices Index (RPI) has shown 12 month percentage changes in prices of between 2.6% and 3.3% for the period of June 2012 to June 2013. Predictions currently forecast similar increases across 2013-2016.

In your MTFS calculations you have used 0% as the base level for inflationary increases (save for specific areas such as gas and electricity, where a 4% increase has been forecast), reflecting the expectation that price increases will – to the extent possible – be absorbed within existing budgets. However, on top of this you have included inflationary increases in specific areas, where cases have been put forward by the service teams; you have also built in a level of contingency to respond to additional pressures that may develop during the forecast period.

This equates to annual forecast inflationary increases of around £3 million across the full five year period.



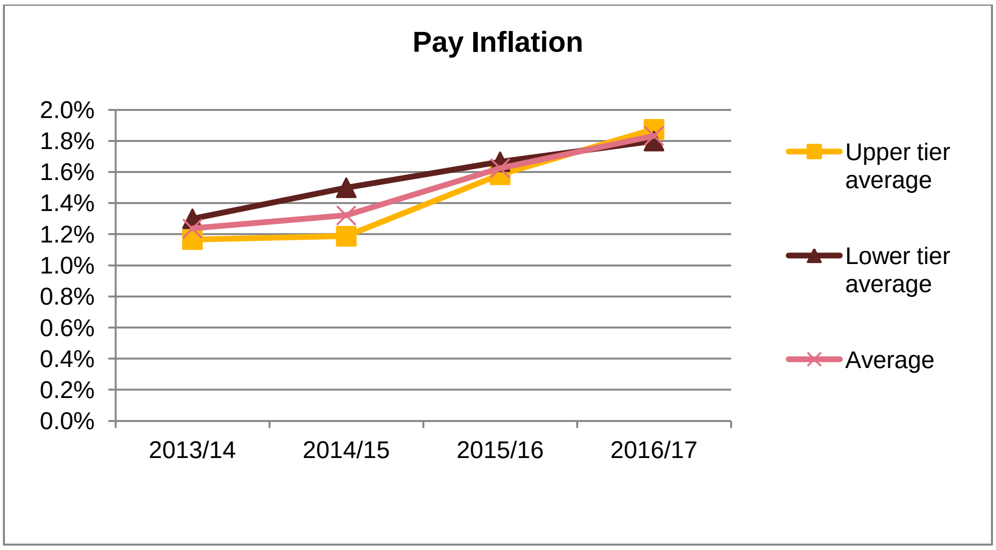
As seen from the above chart, average budgeted inflationary increases fall well below current forecast levels. The same is true, though less significantly, when using CPI as the benchmark. You have recognised the need for inflationary increases to be absorbed by existing budgets where possible, to meet your outturn targets; but have also recognised where specific additional pressures are likely to be experienced.

Whilst accepting the difficulties in forecasting inflation over the medium term, a relatively small shift in inflationary rates could have a significant impact on the achievement of budgeted outturn.

Inflation – pay costs

The Council has budgeted pay pressures over the five year forecast period totalling £34.8 million. This incorporates the impact of inflationary pay increases, alongside increases in NIC and Superannuation payments, annual increments and the impact of single status. The pay inflation element has been budgeted at 1% for 2013/14 and 2014/15 (reflecting Government policy), and 3% for subsequent periods.

Budgeted pay inflation across our clients within the sector is detailed in the graph below.

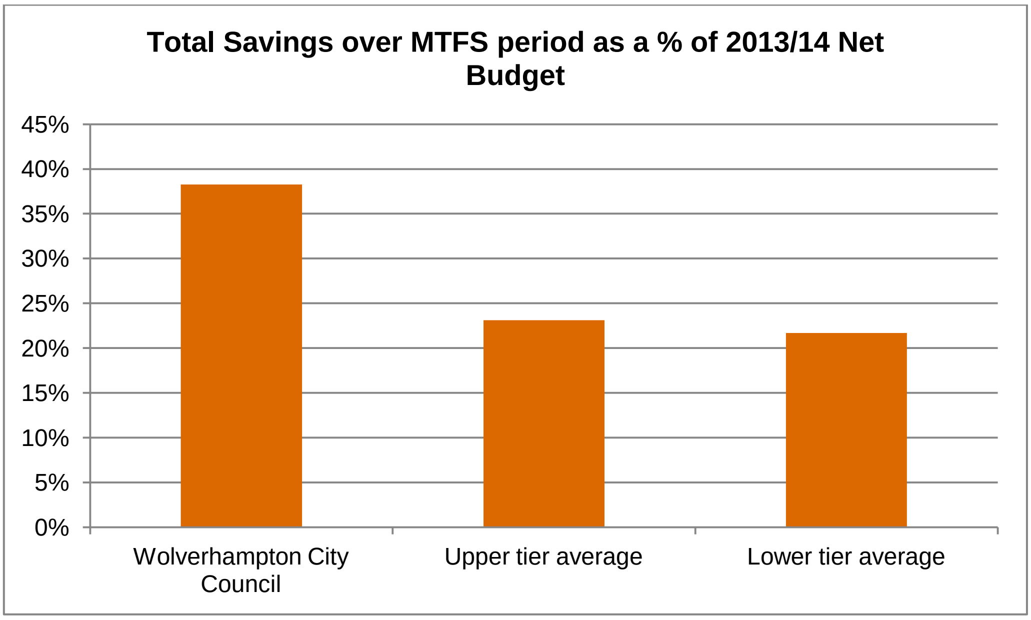


The graph shows a consistent trend between Wolverhampton City Council and our benchmarked group, with greater inflationary increases towards the tail end of the forecast period. The graph also shows that the average rates budgeted by other Authorities for 2015/16 onwards fall below the 3% assumption applied by the Council. This would therefore seem a prudent assessment of the impact of future cost of living increases, accepting the difficulties of forecasting for 2015/16 onwards.

Review of the latest iteration of the MTFS, presented at the July 2013 Cabinet meeting, identifies further changes to pay assumptions, with an additional £1 million budgeted for 2015/16 onwards, to cover forecast increases in employer pension contributions arising from the ongoing pension fund valuation (though this could vary significantly depending on the results of the exercise). At the same time, pay increases have been revised downwards by a total of £5 million over the three periods commencing 2015/16, reflecting wider pressure on budgets.

Total Savings

The Council has included £38.6 million of expected savings within its MTFS, including £28.5 million over 2013/14 and 2014/15. To balance its budget in the medium term, £59.1 million of additional savings will be required based on the MTFS forecasts. The graph below provides a comparison of total savings required over the duration of the MTFS to balance your budget, as a proportion of net budget, versus upper and lower tier averages.



As is evident from the graph, the levels of savings included within your MTFS are significantly greater – proportionate to net budget – than our benchmark sample.

The July 2013 report to cabinet includes a number of revisions to the MTFS to take into account year to date performance, additional pay pressures (referenced above), the Chancellor's spending plans for 2015/16 and other matters. This has increased the cumulative projected deficit over the forecast period, as follows:

Period	*2014/15*	*2015/16*	*2016/17*	*2017/18*
January 2013 MTFS: Projected cumulative budgeted deficit (before use of reserves).	£16.5m	£33.8m	£48.1m	£59.2m
July 2013 MTFS: Projected cumulative budgeted deficit (before use of reserves).	£18.3m	£34.4m	£49.8m	£68.2m

The updated forecast also provides an initial forecast for the 2018/19 position; this projects an in-year deficit of £17.9 million, and a cumulative deficit of £86 million. This cumulative deficit represents almost 40% of the Council's net budget (before the use of reserves).

Meeting the 2013/14 budget has proved challenging during the year so far, with a £5.0 million deficit reported to Cabinet in July. The main driver for this variance is increasing demand for specific services (notably in Looked After Children).

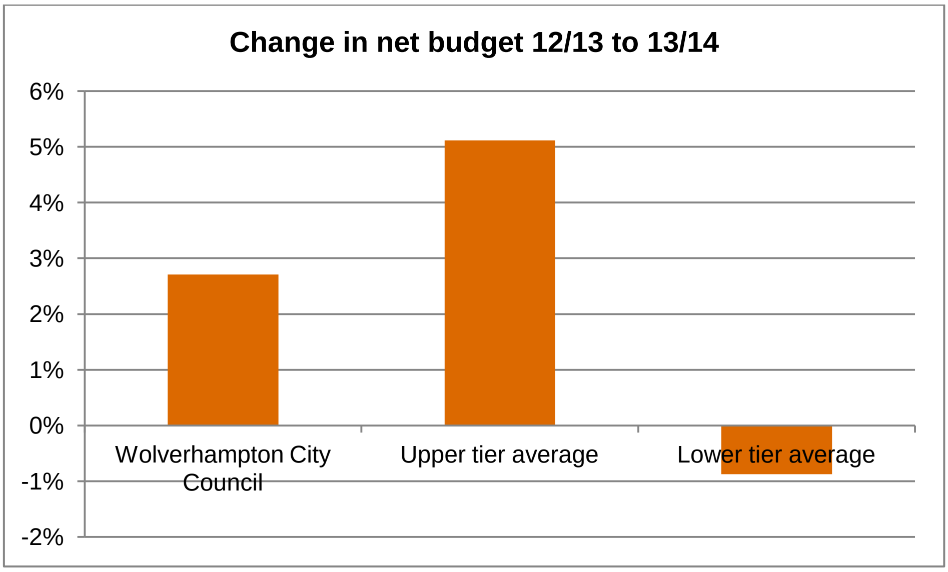
£6.6 million of savings have been delivered against the 2013/14 target of £17.3 million, and therefore the Council is on track to achieve a significant proportion of its in-year savings target. However year to date performance will add yet more pressure by requiring identification of further savings and avoid a call on reserves at year end.

Change in Net Budget

The 2013/14 budget details a £59 million reduction in total forecast spend relative to the 2012/13 baseline , without taking into account new savings identified in 2013/14, specific grant income or use of reserves. That reduction is primarily linked to corresponding reductions in grant funding. However the overall net budget requirement before use of reserves and including the impact of new savings proposals has increased by £6.3 million (2.7%) from 2012/13.

Key drivers behind this include significant pay pressures forecast for 2013/14 (£8.9 million budgeted impact) primarily related to single status, inflationary pressures of £2.3 million and a reduction in grant funding for specific services of £10.6 million.

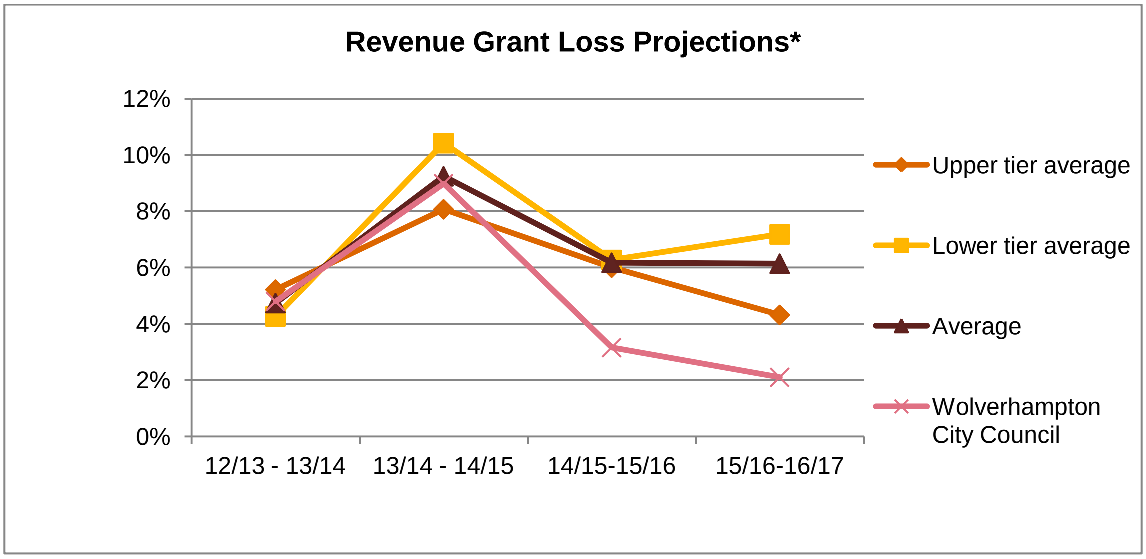
The net budget requirement for 2013/14 also includes £17.3 million of new savings in addition to the recurring impact of £19.9 million of budgeted savings in 2012/13.



Relative to its peers, Wolverhampton is showing a lower than average increase in net budget requirement, although greater than that forecast in lower tier authorities.

Level of Grant Funding

Funding levels from Central Government have been in decline since the 2010 CSR, and further reductions are forecast over the five year forecast period. Though funding allocations for 2015/16 onwards have yet to be announced, significant reductions have been forecast in the MTFS, with core RSG funding (now incorporating a number of previously separate funding streams) reducing from £104.6 million in 2013/14 down to £67.4 million in 2017/18.



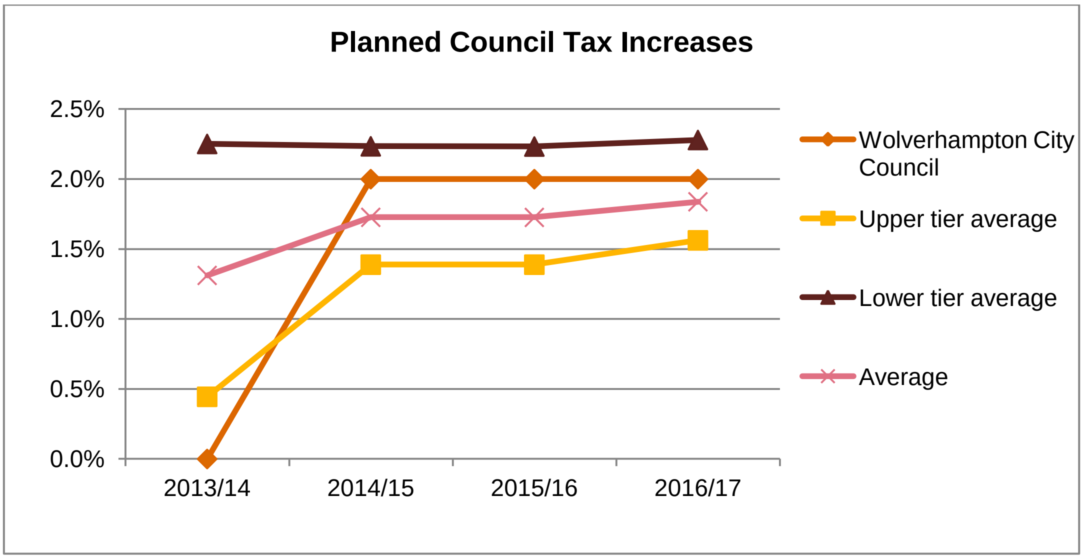
* Considers movements in forecast Revenue Support Grant, Locally Retained Business Rates and Top Up Funding.

The graph above shows that for 2013/14 and 2014/15 your predictions in respect of core revenue funding are broadly in line with our benchmark sample. Subsequent years show greater variation, and whilst the overall trend is in line with your peers the data does suggest that the initial MTFS forecast is less prudent than others in the sector in this respect.

However, following the June 2013 announcement of further cuts to Communities budgets in 2015/16, you revisited the above assumptions and have factored in additional reductions for total revenue grant funding in 2016/17 and 2017/18 (as well as including further forecast reductions for 2018/19). This has equated to an annual forecast reduction in RSG funding of 9%, as well as reducing the level of forecast increases in NNDR receipts, reflecting revised city growth forecasts.

Council Tax

The Council has frozen Council Tax charges for 2013/14, and has received additional government funding of £0.9 million as a result. In the MTFS annual increases of 2% are predicted for 2013/14 onwards, representing a greater than average forecast increase and in part making up for four years of frozen council tax charges.



The degree of uncertainty over any proposed increase is recognised; any proposal would first have to be ratified by Council and would be an unpopular decision with residents. Taking this into account, has the Council considered the impact of not achieving the desired increase in rates, and what this would mean for its existing financial targets and required savings?

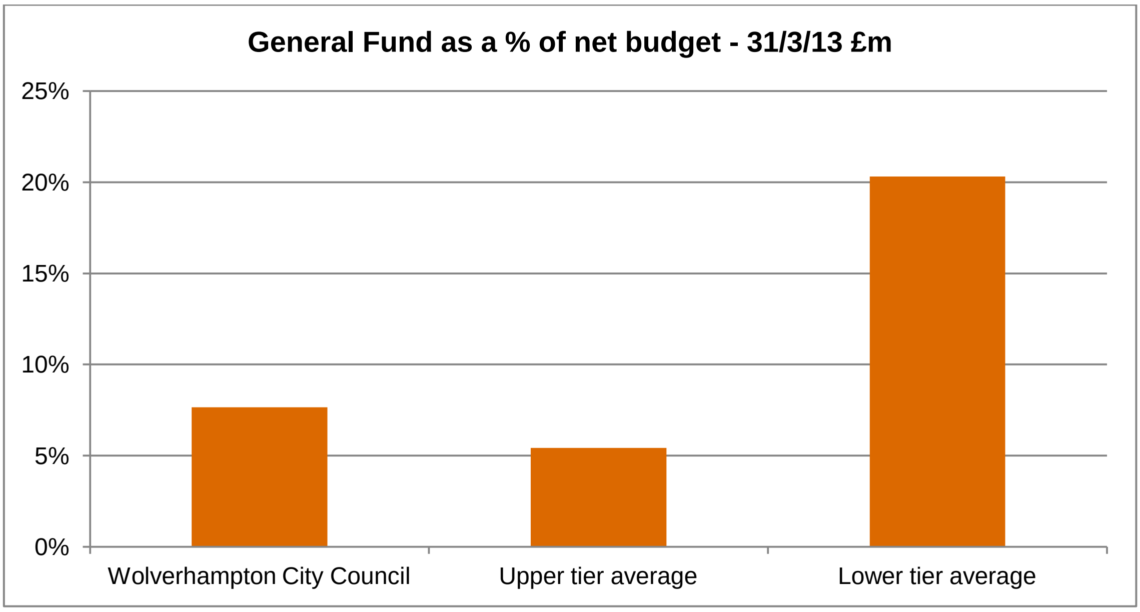
Sensitivity Analysis

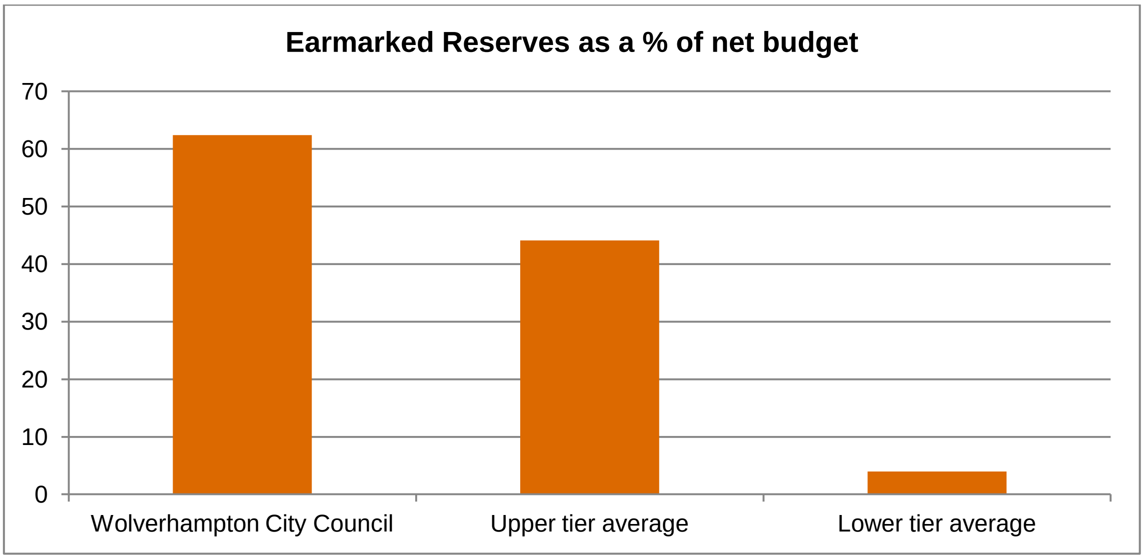
Sensitivity analysis of your inflation assumptions was performed to give an idea of what total expenditure would look with a 1%, 2%, 3% and 4% increase and decrease in inflation. In broad terms, a 1% increase in inflation above your assumptions would result in a cost pressure of approximately £6.3 million in 2013/14. The Council has an earmarked reserve of £2.0 million to help absorb un-forecast inflationary increases, however this only provides a limited amount of contingency in such a situation.

Reserves – General Fund

The Council's financial policies have stressed that the General Fund balance is only to be used in specific circumstances, not simply to support overall financial position. During 2012/13 a total of £3.6 million of the opening £19.5 million balance was used to balance the budget.

Other usable reserves include £20 million designated as a 'budget support reserve', to assist the Council in responding to financial challenges over the medium term. Of this £2 million has been allocated to reduce pressures over the forecast period (expected to be recognised during 2013/14), however it is acknowledged that balancing the medium term deficit needs to be driven by identifying 'new' savings rather than placing reliance on the draining of existing reserves.





As evidenced in the graphs above, the Council holds a reasonable General Fund balance compared to our benchmark sample and its other earmarked reserves are significantly larger than its peers as a proportion of the Council's net budget requirements. This inevitably provides an additional level of contingency should savings plans not be fully realised, though as noted, the use of reserves to support financial performance is not a sustainable budgetary strategy.

We note that you have an annually approved 'Use of Reserves and Provision' policy which helps to ensure the proper and effective use of reserves. It is important to continue to focus on achieving sustainable savings to balance the Council's budget, and that any proposed drawing of reserves is properly justified by management, and appropriately challenged.

Section II: Conclusions

Summary of assumptions:

The key assumptions supporting your MTFS are broadly consistent with those seen elsewhere in the sector, and whilst there are some notable deviations the assumptions employed appear reasonable and acknowledge the scale of the financial challenge presented.

In those areas where assumptions appear less prudent than our benchmark sample you have subsequently revisited the appropriateness of those assumptions in light of updated information, and have adapted your forecasts accordingly.

Conclusion

We have reviewed your MTFS and the assumptions which lie behind it. We have compared you with other, similar Local Authorities and taken into account our wider understanding of the Local Government sector. We have also considered the Council's track record in:

- setting realistic budgets;
- delivering services within budget;
- delivering planned saving targets; and
- maintaining adequate levels of reserve balances.

Despite the preparation you have undertaken and the prudent assumptions you have made, there continues to be a risk around delivery of your MTFS. The main risks you face as an organisation to non achievement of your medium term financial strategy include:

Slippage: you may not be able to achieve the savings you want either from a service reduction or through efficiencies

Timing: The timing of savings, service reductions and funding announcements will impact how you deliver against your MTFS

Assumptions: We have gone some way above to assess the assumptions you have applied in your MTFS. If these assumptions turn out to be inaccurate, this would have a significant impact on your ability to deliver a balanced budget over 5 years.

You need to ensure that you continue to monitor progress against the plan, paying particular attention to changes in the original assumptions you have made.

This work will contribute to our use of resources conclusion; we expect to report the outputs of this work in September 2013.

Agenda Item No: **9a**

Audit Committee

23 September 2013

Report Title	Risk Management – Benchmarking	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Risk Management and Insurance Services	
Accountable officer(s)	David Johnston Tel Email	Head of Risk Management and Insurance 01902 55(4565) david.johnston@wolverhampton.gov.uk

Recommendation(s) for noting:
The Committee is recommended to:

1. Note the outcome of the Council's participation in the Alarm CIPFA Risk Management Benchmarking Club.

1.0 Purpose

1.1 To advise the Committee of the results of the Council's participation in the ALARM CIPFA Risk Management Benchmarking exercise.
(ALARM – The Public Risk Management Association: CIPFA – the Chartered Institute of Public Finance and Accountancy).

2.0 Background

2.1 The benchmarking exercise is an assessment of an organisation's standard of risk management practice when compared to the ALARM National Performance Model for Risk Management. It consists of a series of 39 questions broken down into seven areas which are weighted to produce an individual assessment of each of those areas.
The results of that exercise for Wolverhampton, which show that the organisation is operating at the high level of predominantly Embedded and Integrated, are enclosed in an abridged form.

3.0 Progress

3.1 The report highlighted two particular areas where our practice had just fallen short of the Embedded and Integrated level.
These were in respect of two questions relating to:
a) managing risk within partnerships
and
b) independent review of the risk management framework.

3.2 Action has been taken to address these matters and ensure improvement;
a) Councillors will recall that **Partnership Governance** is an item noted in the Annual Governance Statement and the course of action to address that issue is ongoing and will address managing risks within partnerships.
b) In respect of an independent review – **Risk Management and Annual Governance Statement follow up -** is an item on our external auditors work programme for this year.

4.0 Financial implications

4.1 There are no financial implications arising from this report.
[GE/10092013/R]

5.0 Legal implications

5.1 There are no legal implications arising from this report.
[FD/11092013/C]

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

Alarm CIPFA Risk Management Benchmarking Club 2013

Wolverhampton City Council

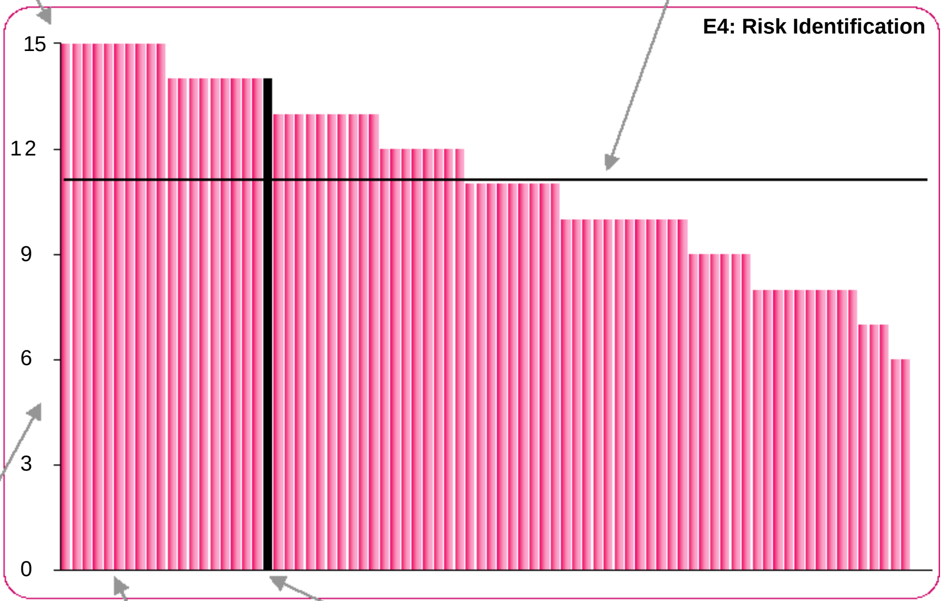
compared with

31 Other Club Members

Understanding Our Charts

The scale is set so the top of the scale is the maximum possible score.

The horizontal line shows the average score for the organisations compared.



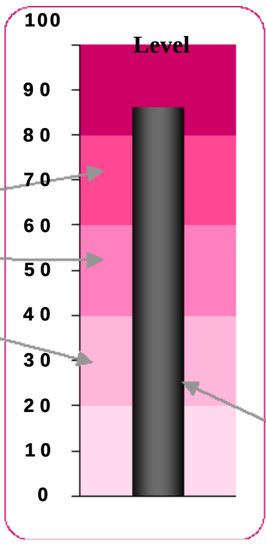
The y-axis shows the score.

Each bar represents an organisation's score.

The black bar represents your organisation's score.

Summary bars are provided for the section totals

The shaded areas represent the different maturity bands (Awareness, Happening, Working, Embedded & Integrated, Driv



The black bar represents your organisation's score.

Introduction

Welcome to your 2013 Risk Management benchmarking report. This is the fourth year of this Benchmarking Club and we hope members have found it useful and felt that the changes made have made the exercise simpler and better.

The exercise has been designed as a performance improvement tool. It's about helping you raise the standards of risk management within your organisation. It is based on Alarm's National Performance Model for Risk Management in Public Services published in 2009. This is available to download from www.alarm-uk.org.

This Benchmarking Club was initially conceived by an Alarm Special Interest Group, comprising of professional, practising risk managers, and developed into its final version in collaboration with leading risk management consultants, Det Norske Veritas (DNV).

The National Performance Model is based on the highly respected tool developed by HM Treasury in 2002, "Risk Management Assessment Framework", itself having its genesis in an EFQM approach. It breaks down risk management activity into seven strands:

- Leadership and management
- Policy and strategy
- People
- Partnerships, shared services and resources
- Processes
- Risk handling and assurance
- Outcomes and delivery

Under each strand, a series of questions have been developed which members have answered. These answers are weighted to reflect their relative impact on performance and collated into a final "score" for each section. This identifies the level of maturity the organisation has reached. This report provides the initial findings of yours and comparator organisations.

We expect that you will be using the results contained within this report as the basis of the evidence that you will use to provide your organisation with assurance of the standard of risk management that it has reached, along with comparison with others within the public sector.

Thanks

Alarm and CIPFA would like to thank this year's steering group for their work in reviewing and revising the question set and tightening up the guidance:

Stephen Andreassen - Norfolk County Council
John Allsop - London Borough of Ealing

Peter Andrews - Hampshire County Council

Robert Ford - Dorset Fire & Rescue
Susan Gibson - London Borough of Lambeth

Summary

Here is an overview of your results in each area. Please see later sections for breakdowns of these results.

Enablers Leadership & Management	Awareness	Happening	Working	**Embedded & Integrated**	Driving
Policy & Strategy	Awareness	Happening	Working	**Embedded & Integrated**	Driving
People	Awareness	Happening	Working	**Embedded & Integrated**	Driving
Partnerships & Resources	Awareness	Happening	**Working**	Embedded & Integrated	Driving
Processes	Awareness	Happening	Working	**Embedded & Integrated**	Driving
Results Risk Handling & Assurance	Awareness	Happening	**Working**	Embedded & Integrated	Driving
Outcomes & Delivery	Awareness	Happening	Working	**Embedded & Integrated**	Driving

Level Guide:

Awareness	<20%
Happening	20 - 45%
Working	45 - 70%
Embedded &	70 - 85%
Driving	85%+

Section A: Leadership & Management

This section is concerned with:

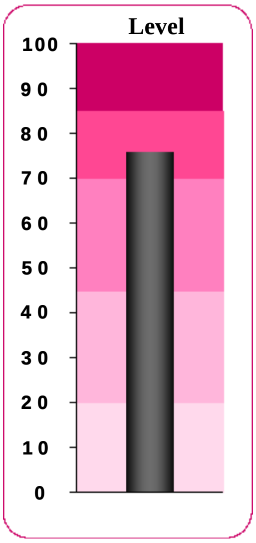
- Risk judgements
- Clear direction
- Risk appetite
- Understanding key risks
- Accountability and responsibility
- Driving improvement
- Challenge to levels of risk acceptance
- Stakeholder engagement

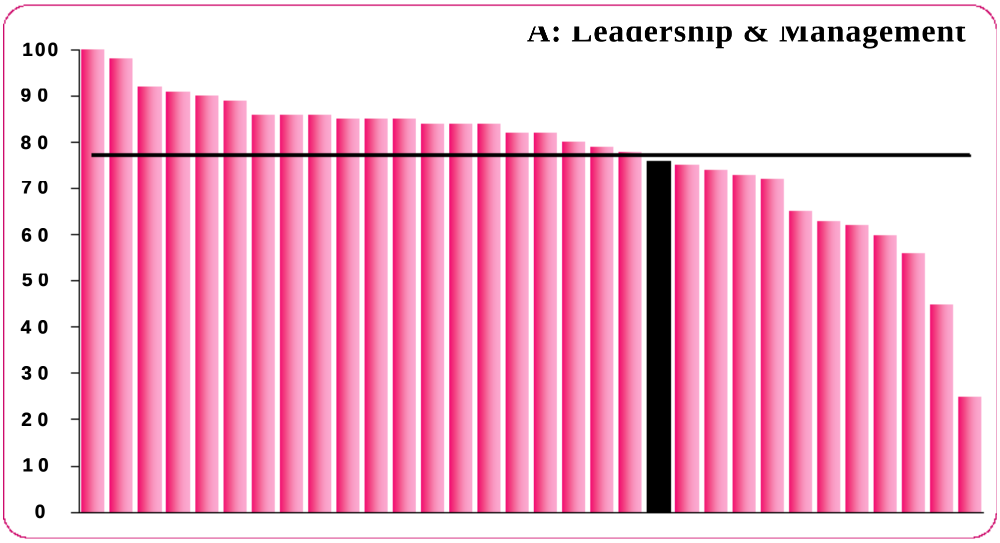
The questions deal with:

- Information and decision making
- Escalation and reporting systems
- Accountability and management responsibility
- Leading risk management implementation
- Stakeholders' engagement

There should be evidence to demonstrate the extent to which the leadership of the organisation:

- Uses risk management to develop effective policies at the policy making stage.
- Uses risk management to achieve better outcomes
- Provides clear direction on the management of risk
- Enables unanimity on the key strategic risks
- Sets the criteria/arrangements for the organisation's appetite for taking risks
- Encourages innovation through well-managed risk taking
- Supports staff when things go wrong (i.e. avoids a blame culture)
- Ensures clear accountability for managing risk
- Drives implementation of improvements in risk management
- Uses the principles of good governance to manage risks





Do Senior Management and the Executive Board support and promote risk management?

Assessed Level: Embedded & Integrated

Score provided: 76 ***Average score: 77.3***

Summary of Behavioural Progress toward Leadership & Management Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Working	Level 4 Embedded & Integrated	Level 5 Driving
Senior management are aware of the need to manage uncertainty and risk and have made resources available to improve.	Board / Councillors and senior managers take the lead to ensure that approaches for addressing risk are being developed and implemented.	Senior managers take the lead to apply risk management thoroughly across the organisation. They own and manage a register of key strategic risks and set the risk appetite.	Risk management is championed by the CEO. The Board and senior managers challenge the risks to the organisation and understand their risk appetite. Management leads risk management by example.	Senior management uses consideration of risk to drive excellence through the business, with strong support and rewards for well-managed risk-taking.

Section B: Policy & Strategy

This section is concerned with:

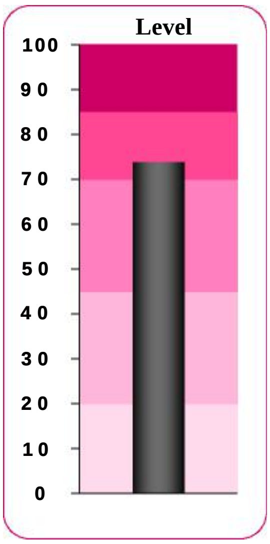
- A strategic approach to the management of risk and increasing its effectiveness
- Policies

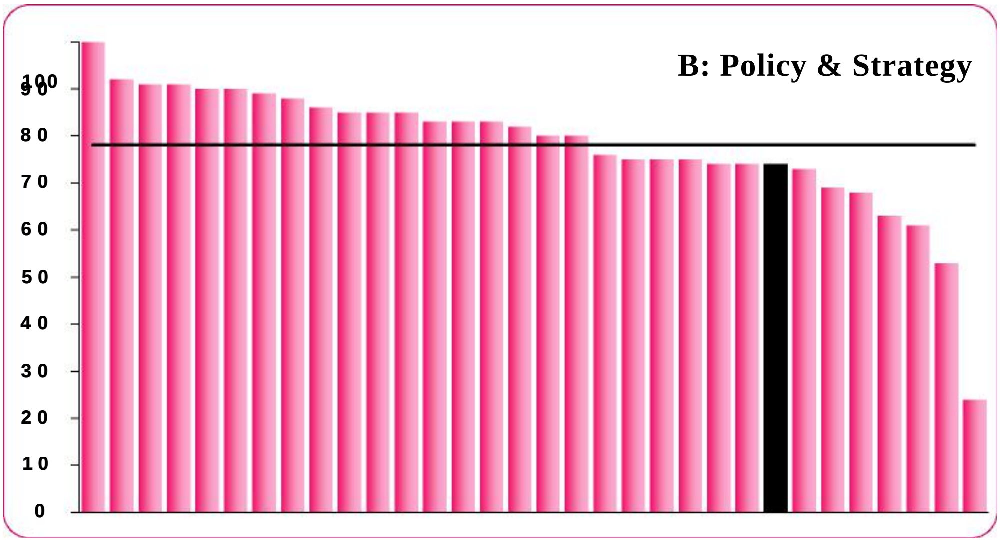
The questions deal with:

- Strategy development
- Risk management policy (including risk appetite)
- Risk management framework and strategy implementation

For this section, you should have evidence to demonstrate the extent to which the organisation has:

- Set a clear direction for the scope and priorities of its risk management
- Set the organisation's requirements of risk management as part of its overall approach to governance
- Designed and implemented a risk management framework





Are there clear strategies and policies for risk?

Assessed Level: Embedded & Integrated

Score provided: 74 ***Average score: 78***

Summary of Behavioural Progress toward Strategy & Policy Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Working	Level 4 Embedded & Integrated	Level 5 Driving
The need for a risk strategy and risk-related policies has been identified and accepted. The risk management system may be undocumented with few formal processes present.	Risk management strategy and policies drawn up, communicated and being acted upon. Roles and responsibilities established, key stakeholders engaged.	Risk management principles are reflected in the organisation's strategies and policies. Risk framework is reviewed, developed, refined and communicated.	Risk handling is an inherent feature of policy and strategy making processes. Risk management system is benchmarked and best practices identified and shared across the organisation.	Risk management capability in policy and strategy making helps to drive organisational excellent.

Section C: People

This section is concerned with:

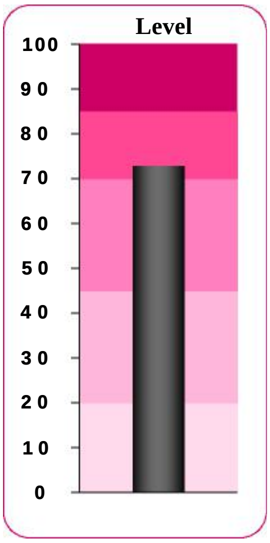
- Culture
- Roles and responsibilities
- Skills, training and guidance
- Communications

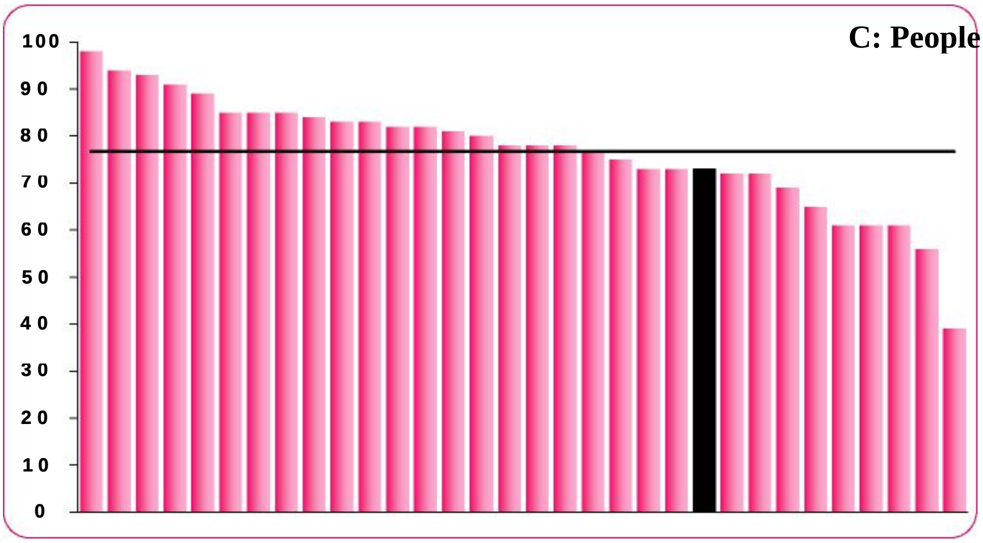
The questions deal with:

- Risk management culture
- Responsibility
- Skills and guidance 5 capability
- Communications

For this section, you should have evidence to demonstrate the extent to which there is:

- A risk-aware culture as opposed to a risk-averse culture at all levels within the organisation
- Responsibilities for risks are allocated to individuals to manage
- There are arrangements to ensure appropriate risk management awareness, knowledge, experience and skills among:
  - Governors/Executive Members
  - Senior Management
  - Staff





Are people equipped and supported to manage risk well?

Assessed Level: Embedded & Integrated

Score provided: 73 ***Average score: 76.8***

Summary of Behavioural Progress toward People Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Working	Level 4 Embedded & Integrated	Level 5 Driving
Key people are aware of the need to understand risk principles and increase capacity and competency in risk management techniques through appropriate training.	Suitable guidance is available and a training programme has been implemented to develop risk capability.	A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. Staff are aware of key risks and responsibilities.	People are encouraged and supported to take managed risks through innovation. Regular training and clear communication of risk is in place.	All staff are empowered to be responsible for risk management. The organisation has a good record of innovation and well-managed risk taking. Absence of a blame culture.

Section D: Partnership & Resources

This section is concerned with:

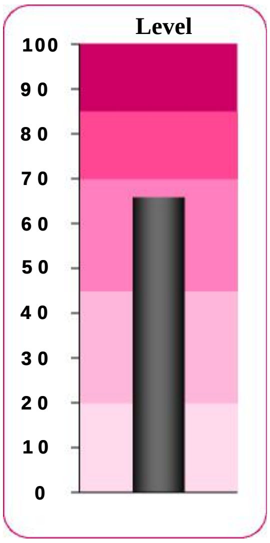
- Managing risk to and within partnerships
- Area specific risks
- Shared risks
- Risk faced by the community
- Local resilience
- Partnership guidance
- Joint risk registers
- Resources available to manage risk effectively

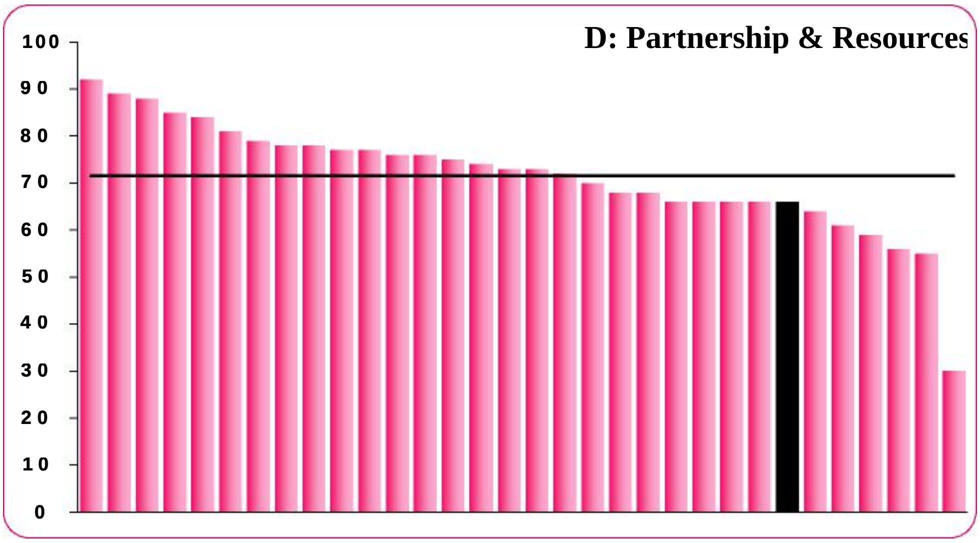
The questions deal with:

- Partnerships and shared risks
- Risk finance
- Information and knowledge
- Tools

For this section, you should have evidence to demonstrate the extent to which:

- There are agreed mechanisms for identifying, assessing and managing risks in each key partnership
- There is a common risk language which creates shared understanding of the key partnerships' risk appetite
- There are appropriate mechanisms for provision and testing of contingency arrangements
- There are appropriate mechanisms for identifying and addressing the implications of sharing risk amongst those best placed to manage them





Are there effective arrangements for managing risks with partners?

Assessed Level: Working

Score provided: 66 ***Average score: 71.5***

Summary of Behavioural Progress toward Partnerships & Resources Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Wor king	Level 4 Embedded & Integrated	Level 5 Driving
Key people are aware of areas of potential risk in partnerships and the need to allocate resources to manage risk.	Approaches for addressing risk with partners are being developed and implemented. Appropriate tools are developed and resources for risk identified.	Risk with partners and suppliers is well managed across organisational boundaries. Appropriate resources are in place to manage risk.	Sound governance arrangements are established. Partners support one another's risk management capacity and capability.	Clear evidence of improved partnership delivery through risk management and that key risks to the community are being effectively managed.

Section E: Processes

This section is concerned with:

- Embedding risk management in organisational management processes
- Identification and evaluation criteria
- Risk controls
- Action planning and reporting
- Use of risk management in strategic and financial planning, policy making and review, performance, and project and contract management
- Use of risk management in decision making
- Risk management integration into key business processes

The questions in this section deal with:

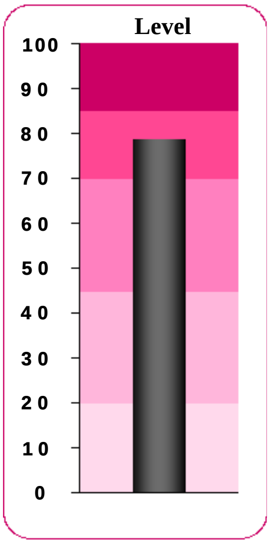
- Risk management process overview
- Links to business/service processes
- Risk context
- Risk identification
- Risk assessment
- Risk response
- Risk reporting and review
- Investigation and root cause analysis
- Service continuity management

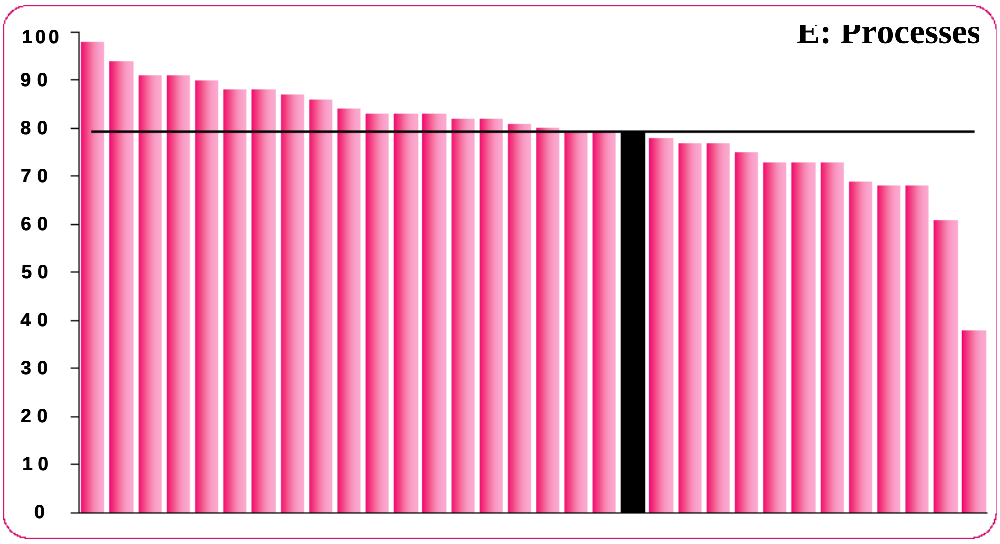
For this section, you should have evidence to demonstrate the extent to which risk management contributes to the success of the following business processes in your organisation:

- Policy making
- Performance management
- Governance arrangements
- Financial management;

and the extent to which:

- Risk processes support a lessons learnt culture
- There is an effective business continuity framework in place to support service delivery





Does the organisation have effective risk management processes to support the business?

Assessed Level: Embedded & Integrated

Score provided: 79 ***Average score: 79.3***

Summary of Behavioural Progress toward Processes Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Working	Level 4 Embedded & Integrated	Level 5 Driving
Some stand5alone risk processes have been identified and are being developed. The need for service continuity arrangements has been identified.	Risk management processes are being implemented and reported upon in key areas. Service continuity arrangements are being developed in key areas.	Risk management processes used to support key business Processes. Early warning indicators and lessons learned are reported. Critical services supported through continuity plans.	A framework of risk management processes in place and used to support service delivery. Robust business continuity management system in place.	Management of risk and uncertainty is well5 integrated with all key business processes and shown to be a key driver in business success.

Section F: Risk Handling & Assurance

Are risks handled well and does the organisation have assurance that risk management is delivering

This section is concerned with:

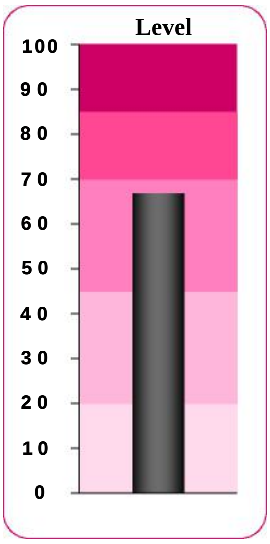
- Successfully seizing opportunities
- Considered risk-taking
- Supporting innovation
- Challenges to preconceptions of risk
- Assurance of the organisation's level of compliance against the risk management strategy

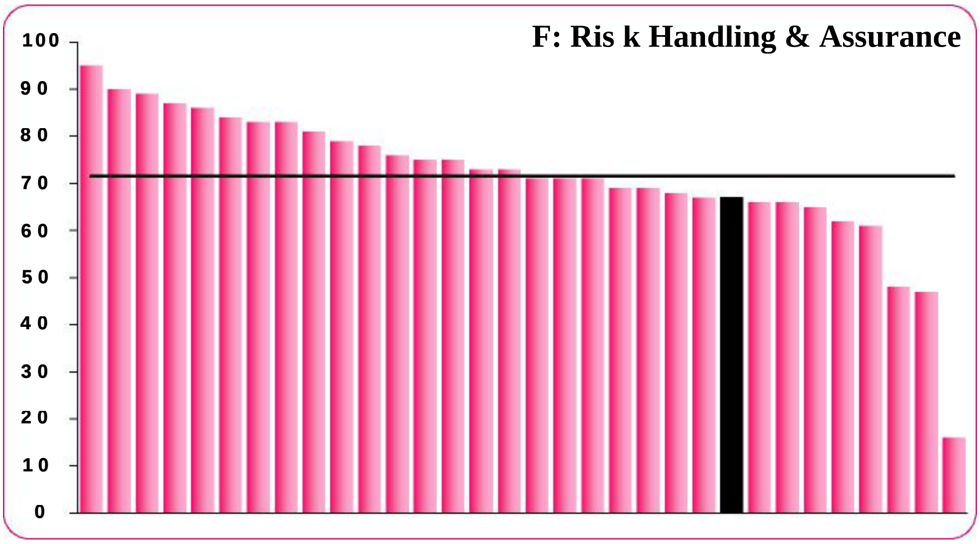
The questions deal with:

- Risk handling
- Assurance and performance

For this section, you should have evidence to demonstrate the extent to which risk management-related activity has contributed to:

- Delivering innovation
- Effective anticipation and management of strategic risks
- Effective decision making
- Effective policy making
- Effective handling of cross-cutting issues
- Effective review of business planning and target setting
- Effective management of risks to the public
- Effective risk allocation
- Better management of risks to delivery
- Greater efficiency / reduced costs
- Information integrity and asset security





successful outcomes and supporting creative risk taking?

Assessed Level: Working

Score provided: 67 ***Average score: 71.6***

Summary of Behavioural Progress toward Risk Handling & Assurance Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Wor king	Level 4 Embedded & Integrated	Level 5 Driving

No clear evidence that risk management is being effective.	Some evidence that risk management is being effective. Performance monitoring and assurance reporting being developed.	Clear evidence that risk management is being effective in all key areas. Capability assessed within a formal assurance framework and against best practice standards.	Evidence that risk management is being effective and useful for the organisation and producing clear benefits. Evidence of innovative risk taking.	Clear evidence that risks are being effectively managed throughout the organisation. Considered risk taking is part of the organisational culture.

Section G: Outcomes & Delivery

This section is concerned with:

- Risk management efforts making a contribution to successful outcomes
- Learning from best practice and continuous improvement

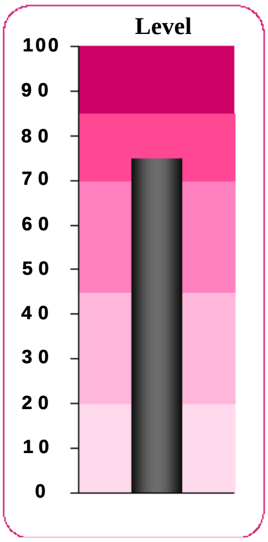
The questions deal with:

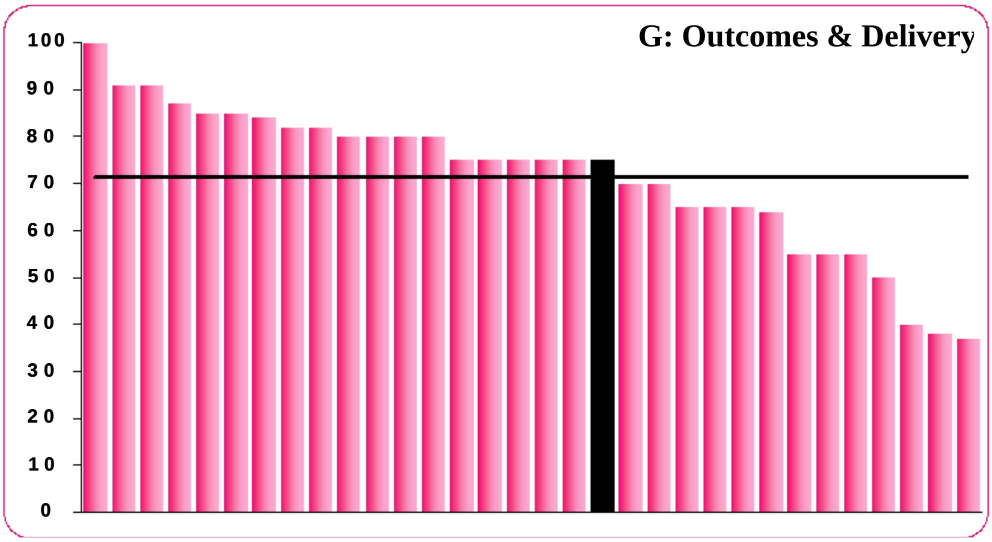
- Risk management contribution to overall performance
- Risk management contribution to specific outcomes

In this section you should have evidence to demonstrate the extent to which risk management action contributes to:

- Successful delivery of improved outcomes for local people / the community
- Meeting planned financial outcomes
- Increased public confidence that risks are well-managed
- The high reputation of the organisation
- Successful innovation

Assessed Level: Embedded & Integrated





Does risk management contribute to achieving outcomes?

Score provided: 75 ***Average score: 71.4***

Summary of Behavioural Progress toward Outcomes & Delivery Maturity

Level 1 Awareness	Level 2 Happening	Level 3 Working	Level 4 Embedded & Integrated	Level 5 Driving
No clear evidence of improved outcomes.	Limited evidence that risk management is being effective in, at least, the most relevant areas.	Clear evidence that risk management is supporting the delivery of key outcomes in all relevant areas.	Clear evidence of significantly improved delivery of relevant outcomes and evidence of positive and sustained improvement.	Risk management arrangements clearly acting as a driver for change and linked to plans and planning • cycles.

Agenda Item No: **10a**

Wolverhampton City Council

Audit Committee

23 September 2013

Report Title	Internal Audit Update – Quarter 1
Classification	Public
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources
Accountable Strategic Director	Keith Ireland, Delivery
Originating service	Delivery/Audit
Accountable officer(s)	Peter Farrow Head of Audit Tel 01902 55(4460) Email peter.farrow@wolverhampton.gov.uk

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Recommendations for noting:
The Committee is asked to note:

1. The contents of the latest Internal Audit Update as at the end of quarter 1.

1.0 Purpose

1.1 The purpose of this report is to update Committee members on the progress made against the 2013/14 Audit Plan and to provide information on recent work that has been completed.

2.0 Background

2.1 The Internal Audit Update Report as at 30 June 2013 (quarter 1) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform the overall opinion in our Annual Internal Audit Report issued at the year end. It also updates Committee members on various other activities associated with the internal audit service.

3.0 Progress, options, discussion, etc.

3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

4.1 The continued review of order processing and creditor payments has identified duplicate payments totalling £36,000. Of this, £34,000 was actually stopped prior to payment and £2,000 has been, or is in the process of being, recovered from suppliers. In addition to this the processing of benefit matches reported through the National Fraud Initiative has resulted in the recovery of £2,000. These combined actions have either prevented or recovered a total expenditure of £38,000. [GE/10092013/Z]

5.0 Legal implications

5.1 There are no legal implications arising from this report. [FD/11092013/A]

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers

9.1 Audit Services – Strategy for Internal Audit 2013/14 – 2015/16

Wolverhampton City Council

Internal Audit Progress Report – Quarter 1
Audit Committee: 23 September 2013

Contents:

1. Introduction
2. Summary of work completed
3. Key issues arising

1 Introduction

The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2013/14 Internal Audit Plan.

The Audit Committee has a responsibility to review the effectiveness of the system of internal controls and also to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal Audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides Members with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Substantial	• a robust framework of controls which ensures that objectives are likely to be achieved and controls are applied continuously or with only minor lapses
Satisfactory	• a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger or the application of controls could be more consistent
Limited	• a risk of objectives not being achieved due to the absence of key internal controls or a significant breakdown in the application of controls

2 Summary of work completed

The following audit reviews have been completed to date in the current year:

Key: AAN = Assessment of Assurance Need

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Fallings Park Primary School	Medium	0	2	13	15	15	Satisfactory
Eastfield Nursery School	Medium	0	4	6	10	10	Satisfactory
Grove Primary School	Medium	0	4	6	10	10	Satisfactory
FutureWorks Programme – High Level Design Phase Review	Medium	0	3	0	3	3	Satisfactory

There were a number of other reviews underway as at 30 June 2013, and these will be reported back in later update reports.

Year on year comparison

4 pieces of planned audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the planned audit opinions given, with a comparison over previous years, is set out below:

Opinion	2013/14 (Quarter 1)	2012/13	2011/12
Substantial	0	22	36
Satisfactory	4	44	62
Limited	0	6	7

Follow up of previous recommendations

The majority of follow up work is now being addressed appropriately by managers and once again, there are no instances to report where audits have been carried out where significant recommendations have not been implemented as previously agreed.

3 Key issues arising since the last progress report

So far in 2013/14 we have not had to issue any audit reports where we were only able to provide a limited level of assurance that the objectives behind each of these areas were being adequately managed and controlled.

Other areas of potential interest to the Audit Committee

FutureWorks Programme High Level Design Phase Review

Our review of the High Level Design Phase of the FutureWorks Programme concluded that there was satisfactory assurance that risks material to the successful delivery of the project were being effectively managed and controlled. The main issues arising from the review were as follows:

- Attendance at a number of the workshops was relatively poor, with some potentially key stakeholders not represented. Consequences of this lack of attendance were not considered critical at this time as issues which could not be resolved are logged and carried forward into the Detailed Design phase. That said, there is clearly a risk that any delays in the identification and resolution of issues will increase pressures later in the project.
- In some instances, documentation was not sent out until very close to the workshop date, which reduces the chances of attendees preparing properly to maximise the effectiveness of the process.
- Sign off of the P2P High Level Design document was delayed as a result of Contract Accounting and ‘Due North’ workshops being held late. Final sign off of the P2P HLD document occurred on 24 July 2013.

Potentially significant areas of concern which are known and have been logged as issues to resolve during the Detailed Design phase include the following:

- The treatment of separate (and future) clients within Agresso, namely Wolverhampton Homes/WMPF. Any delay in resolving this issue will have an impact and delay on future system design. It is understood however, that a decision on this matter is due shortly and will be raised with the Programme Board.

- Issues regarding schools generally, although it is understood that separate workshops are being held/planned.
- Training for budget managers both in terms of basic budget and IT training (where applicable) and specific Agresso based requirements. The Programme Director has indicated that the issue of training should actually be viewed in the context of the FuturePeople programme and a training strategy for FutureWorks will be developed to take account of this.
- Currently established delegations and authorisation levels, including those within the Constitution, will need to be reviewed to ensure that they are not in conflict with the required optimal configuration of Agresso. It is understood that this will be addressed during the Detailed Design phase.

We also identified the following examples of good practice in the organisation, conduct and outcome of the High Level Design process:

- Workshops were well run and at a good pace. Any issues arising were logged for future resolution rather than allowing them to derail the substantive business of the workshop.
- Attendees generally seemed to accept the concept of the 'vanilla solution' (i.e. the principle that the standard Agresso solution will be used as far as possible, with amendments kept to an absolute minimum) and the need for established processes to change where possible.
- Output from the workshops was produced quickly and reflected the actual discussions. Importantly, all potential issues were accurately logged.
- High Level Design documents were, in most cases, promptly signed off by the system owners.

Managed Audits

Managed Audits are the work we do on the Authority's key financial systems and incorporate the requirements of the External Auditors (PwC), in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly. All 2012/13 Managed Audits work was completed to the satisfaction of PwC and in all cases satisfactory or substantial assurance was provided. The 2013/14 programme of Managed Audits is to commence shortly.

Savings

We monitor actual and potential savings identified during the course of our audit and other associated assurance work undertaken across the Council, and we continue to review the order processing and creditor payments system for potential duplicate payments. The status of this work as at 30 June 2013 was as follows:

- 10 duplicate payments identified and stopped prior to payment.
- Total value of duplicate payments £36,133. This equates to approximately 0.03% of the total Council expenditure in the period.
- 5 payments to the value of £1,879 have been or are in the process of being recovered from suppliers.

In addition, a number of benefit matches reported via the National Fraud Initiative (NFI) have been processed. To date, 68 are in progress or have been investigated with 2 errors identified, resulting in savings of £1,756 being recovered. This equates to approximately 0.1% of benefits paid between 1 April and 30 June 2013.

Finally, we undertake the investigation work on Single Person Discount (SPD) referrals via NFI and a total of 1,099 cases have been investigated. 67 customers were found to be over claiming SPD, resulting in potential savings of £54,537 being recovered. This equates to approximately 0.2% of the total number of customers claiming SPD.

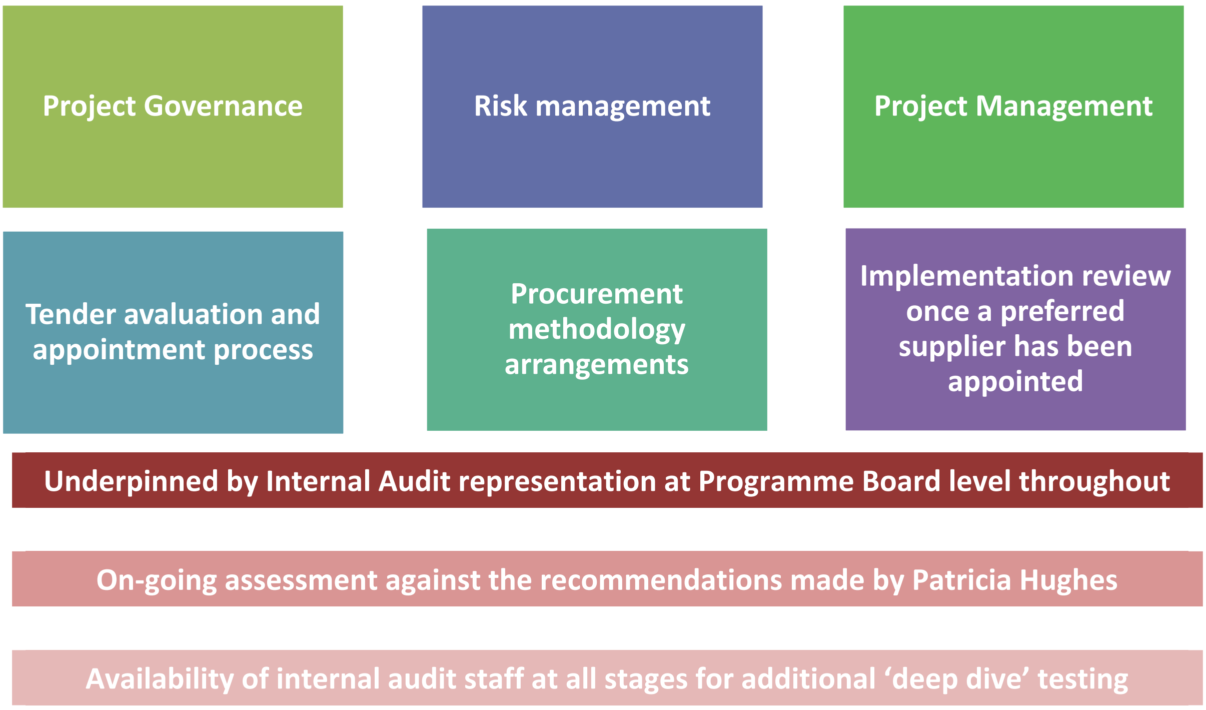
It should be borne in mind that the above frauds and errors identified are very small relative to the total number of Council transactions and are therefore not material when taking into account the size of the overall payments made. However, significant efforts will continue to be made in order to reduce these wherever possible.

Counter Fraud Activities

We have continued to investigate all allegations of suspected fraudulent activity, throughout the year, Details of these have been presented to, and monitored through the work of the Audit Committee's Investigations Sub-Committee, along with details of a number of new initiatives put in place in order to tackle fraud across the Authority.

FutureWorks – the assurance framework and our role

We have agreed, and put in place, an internal audit assurance framework for the current FutureWorks Programme as shown below:



A programme of further and on-going reviews will be required at key stages of the project to provide assurance in respect of compliance with this framework.

We continue to work closely with the external auditors (PwC) in relation to this Programme so that our work is co-ordinated and assurance can be provided efficiently. This has included participating in a workshop with PwC to develop an Assurance Framework for the programme and a further session is planned to determine precise assurance activities required. As at 30 June 2013, the following combined assurances from internal and external audit had been given against the programme:

Programme area	External and independent assurance obtained to date (the third line of defence)
Reported previously:	
Project Governance The governance and reporting structure and the decision making process.	Internal Audit position statement – September 2012 gave substantial assurance on the project's governance arrangements regarding an appropriate structure being in place to approve key decisions and which addressed the recommendations laid out in the Patricia Hughes report.
Project Management The key project management controls in place i.e. project plan with clearly defined milestones, resourcing plans, and identification and management of key project risks.	PwC health check – September 2012 concluded that the programme has robust project and risk management arrangements in place. Internal Audit position statement – September 2012 gave substantial assurance on the project management arrangements.
Procurement methodology The procurement methodology followed and compliance with the prescribed approach.	Internal Audit position statement – September 2012 gave substantial assurance on the sign-off arrangements in respect of documentation completed prior to publication of the OJEU notice.
Tender evaluation and appointment process The evaluation approach/framework to be adopted for the review and evaluation of tender submissions to ensure there is a transparent process in place in the event of the process being challenged.	Internal Audit was able to observe the appropriate conduct of the procurement process up to the appointment of the successful bidder. This included access to dialogue sessions with both shortlisted contractors. Observations and recommendations were fed back to key staff and the Board as appropriate.
Risk Management How the risks associated with the project are being managed and the role of the Audit Committee in reviewing these.	**In September 2012 the Audit Committee received the following reports:** PwC health check - concluding that the programme has robust project and risk management arrangements in place. Internal Audit update report – the first 'position statement' giving substantial assurance around both the governance and project management framework put in place to oversee the future delivery of the project. **In July 2013 the Audit Committee received the following report:** PwC External Audit Update – who stated that they had carried out an audit 'health check' of the Programme in March and April 2013. The scope of this review was to consider the Council's programme management controls as at 30 March 2013. Their work specifically focused on the overall programme structure, the Council's assurance framework and controls over the procurement phase of the programme. They reviewed key project documentation and discussed progress with the Programme Team. They concluded that as at April 2013 the Council had good programme and risk management arrangements in place for the procurement phase of the Programme but that more needed to be done to clarify and formalise its future assurance needs for the delivery phase.

Reported for the first time:	
Implementation Review How the programme is progressing.	Internal Audit High Level Design Review – June 2013 gave satisfactory assurance on the high level design documents for key work streams. A limited number of issues were raised and these are reported separately (above) in this report.

Audit Services staff, are continuing to actively participate in the FutureWorks workshops focusing on the detailed design of key work streams.

Single Status Programme – the assurance framework and our role
Similar to the Shared Service Transformation Programme above, we have agreed, and put in place, an internal audit assurance framework for the Single Status Programme as shown below:

As at 30 June 2013 Audit Services had completed extensive assurance work in respect of Payroll Implementation which was the final phase of the Single Status project. Following the implementation of Single Status on-going assurance work has taken place in respect of the new transitional arrangements in order to monitor compliance with the collective agreement. It is proposed that a review of the Council's appeals process will be captured under the 2013/14 audit plan. Throughout the Single Status process Audit Services have been embedded in the programme and has had presence on Single Status Board. In addition to representation on the Single Status Board, we also have a presence on the Pay Strategy Board and the Equality Governance Panel. The purpose of both these groups is to ensure on-going compliance with the collective agreement and to prevent any potential pay inequalities arising from the appeals process.

In addition to the above areas we have also been actively involved in the Pensions Auto-Enrolment Project which has been subsumed under the Single Status programme. We have been embedded into the project team and have audited the process.

There are currently no outstanding red or amber issues relating to our work on the Single Status project.

Equal Pay

We have played an active part in this project and we have previously undertaken assurance reviews around the Council's settlement strategy, the accuracy of proposed settlement offers, and the accuracy of payments. Further work will be required in respect of this area following the recent outcome of the Birmingham City Council v Abdulla case. We continue to have an on-going role in terms of providing assurance around future settlements and have presence at equal pay project team meetings.

Finally, we are working closely with PwC in relation to Single Status and Equal Pay issues in order to ensure that audit resources are maximised, and that our work is co-ordinated to provide assurance efficiently and effectively. It is proposed that a health check review will be undertaken to assess whether previous recommendations have been implemented and review the system for managing future claims.

Introduction of Procurement Code

We are in discussions with the Head of Procurement in respect of providing assurance regarding the implementation of the Procurement Code. Initially this will include a review of the proposed Procurement Code and implementation arrangements. Following implementation of the Code we will review governance arrangements relating to the embedding of the Code within the organisation, including the establishment and operation of the Procurement Board.

Audit Committee

23 September 2013

Report Title	Audit Services Management Arrangements Update
Classification	Public
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources
Accountable Strategic Director	Keith Ireland, Delivery
Originating service	Delivery/Audit
Accountable officer(s)	Peter Farrow — Head of Audit Tel — 01902 55(4460) Email — peter.farrow@wolverhampton.gov.uk

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Recommendations for noting:
The Committee is asked to note:

1. The continued management and leadership arrangements for Internal Audit, and the further extension and development of the service to include absorbing the Benefit Fraud Investigation Team into a wider Corporate Fraud Team.

1.0 Purpose

1.1 To provide an update on the arrangements to continue the innovative partnership with Sandwell MBC for the role of Head of Audit and the further development of Audit Services to include taking on the management of the Council's existing Benefits Fraud Investigation Team, in order to establish a wider ranging Corporate Fraud Team.

2.0 Background

2.1 Councillors will be aware that as from 1 January 2012 the Council has shared the Head of Audit role with Sandwell MBC. This arrangement has worked well over the last two years, with many successful outcomes, including:

- The introduction of a new risk-based audit methodology and plan focussing upon high risk areas, taking into account the results of the recent systems thinking intervention.
- Developing the style and content of audit reports.
- Establishing a Counter Fraud Unit within Audit Services.
- Closer working relationships between Internal Audit and senior officers across the Council.
- New terms of reference for both Internal Audit and the Audit Committee.
- Developing the work of the Audit Sub-Committees.
- Supporting the Members of the Audit Committee in their continued development and training.
- The successful implementation of the recommendations made by PwC in their review on the effectiveness of internal audit.
- Sharing of skills and experience of the audit teams between the two authorities.
- Full reliance placed on the work of Internal Audit by the External Auditors.
- The development of the Audit Service in order to play a key part in the corporate aims and objectives of the Council.

The following table gives further details of the wider client base the combined Audit team now deliver a range of services for:

West Midlands Pension Fund

A shared internal audit, counter fraud and risk service

Since January 2012 Wolverhampton City Council and Sandwell MBC have entered into a unique shared service arrangement for their internal audit and related services.

The shared service has a wide and varied customer base including the two local authorities, West Midlands Fire Service, West Midlands Pension Fund, both Sandwell Leisure and Arts Trust and three recent academy convertors. Our aim is to add real benefits to our customers in their key areas of governance, control and risk.

Key highlights from this unique arrangement include:

'blue chip' clients	expertise	benefits to customers
• Wolverhampton CC • Sandwell MBC • WM Fire Service • WM Pension Fund	• internal audit • counter fraud • investigations service • risk management • assurance mapping • partnership governance	• innovation • wider skills pool • efficiency savings • commercial awareness • flexibility • professionalism

"A joint local professional team providing the internal audit service to a wide range of public and related organisations across the West Midlands - putting true 'localism' into practice".

For further information please contact Peter Farrow – Head of Audit, at peter.farrow@wolverhampton.gov.uk

3.0 Progress, options, discussion, etc.

3.1 It is now planned to extend the current arrangement for a further 3 years to 31 December 2016. It is also planned to bring the Council's Benefit Fraud Investigation Team under the Audit Services umbrella, enabling a wider counter fraud team to be established, with a corporate remit to tackle fraud across a wider range of areas than the two separate functions have at the moment. These moves will enable Audit Services to offer a suite of related services, including Internal Audit, Counter Fraud and Corporate Investigations.

3.2 **Counter Fraud**

One of the drivers for taking on of the Council's Benefit Fraud Investigation Team, is as a result of the Government's strategy for tackling fraud and error in welfare benefits, which has set out to create a Single Fraud Investigation Service (SFIS) to carry out the evidence and intelligence gathering and subsequent investigations of welfare benefit fraud. This is being achieved by bringing together investigation staff from Local Authorities, Department for Work and Pensions (DWP) and Her Majesties Revenues and Customs (HMRC) into a single service. The exact arrangements behind this have yet to be defined by the DWP.

Currently the Benefit Fraud Investigation Team is charged with the investigation of Housing Benefit (HB), Council Tax Reduction (CTR) and historic Council Tax Benefit (CTB) along with certain associated national welfare benefits and was established a number of years ago. HB is being replaced within Universal Credit (administered centrally) for working age claimants, whilst CTB has been replaced by a scheme being run locally called Council Tax Reduction.

This proposal would enable one combined counter fraud team to be established, with the ability to retain focus and co-ordinate resources in high risk/profile areas, in line with the wider fraud agenda as identified by the National Fraud Authority, Audit Commission and CIPFA whilst also investigating welfare benefit cases in line with SFIS procedures.

It will enable the Council to continue to deliver against its responsibility to investigate HB/CTR/CTB and national welfare benefits in the run up to the introduction of Universal Credit and will also allow an increased capacity to undertake national high profile projects, such as the housing tenancy fraud exercise which is currently being run with Wolverhampton Homes. Other future projects could include Business Rates Fraud, Blue Badge Fraud, Right to Buy Fraud, Procurement, Personal Direct Payments, Recruitment and fraud against schools. Some of the other benefits this arrangement will bring includes:

- Opportunities for staff working in fairly constrained areas to gain experience of the wider fraud agenda.
- Clearer reporting lines through to the Audit Committee and the Investigations Sub Committee.
- Delivery of a wider counter fraud programme and call-off investigations, to current and potential future partners including West Midlands Pensions Fund, academy convertors, links with Sandwell etc.
- More visible continuation of the existing fraud programme from an audit perspective, including the National Fraud Initiative (NFI), self-assessing against

best practise guidance, maintenance of the Council's fraud risk register, raising fraud awareness activities (newsletters, website, seminars, surgeries).

4.0 Financial implications

4.1 The National Fraud Authority (NFA) encourages organisations to review their fraud risks and to develop responses to manage those risks. Their Annual Fraud Indicator 2013 estimated total fraud loss against the UK to be £52 billion per annum. The current estimate of fraud against local government is £2.1 billion. This is broken down into the fraud types detailed in the table below:

Fraud Type	Fraud Loss
Housing tenancy fraud	£845 million
Procurement fraud	£876 million
Payroll fraud	£154 million
Council tax fraud	£133 million
Blue Badge Scheme misuse	£46 million
Grant fraud	£35 million
Pension fraud	£7.1 million

4.2 The NFA developed a fraud loss profile tool to calculate indicative lower and upper estimates of potential fraud loss through council tax, housing tenancy, procurement and payroll. In July 2012 relevant Council data was fed into this tool. The resulting potential estimated loss through fraud and error to the Council ranges from £7.6 million to £12.7 million, the details of which are contained in the table below:

	Lower Estimate £000s	Upper Estimate £000s	Notes
Council Tax Fraud	550	920	(a)
Housing Tenancy Fraud	3,200	5,300	(b)
Procurement Fraud	3,440	5,740	(c)
Payroll Fraud	450	750	(d)
Total	**7,640**	**12,710**	

The results in each fraud category in the table are underpinned by the following assumptions:

(a) Council Tax
The Audit Commission estimates that the percentage of dwellings incorrectly claiming single person discount (SPD) falls between 4% and 6%. For the purpose of this calculation, and to comply nationally with the Audit Commission guidance, the lower estimate of 4% has been used to give an indicative estimate of the levels of over claiming across all council tax discounts and exemptions, not just SPD. However, recent discount and exemption reviews undertaken at Wolverhampton suggest that 3% may be a more accurate estimate, which would reduce the above figures.

(b) Housing Tenancy
The Audit Commission estimates that the percentage of social housing unlawfully occupied in London is 2.5%, everywhere else is 1%. A conservative estimate of 1% has been used to calculate housing tenancy fraud.

(c) Procurement
A 1% fraud loss rate for procurement has been used as identified in the National Fraud Authority Annual Fraud Indicator.

(d) Payroll
A 0.2% fraud loss rate for payroll has been used as identified in the National Fraud Authority Annual Fraud Indicator.

4.3 During November each year the Audit Commission publishes the ‘Protecting the Public Purse’ report. Much of the information in the report comes from an annual survey of local authorities, which also informs the NFA’s annual assessment of the total value of fraud in the UK. The annual fraud survey was completed at the beginning of May 2013 and the headline results for Wolverhampton were:

Type of Fraud	No. of cases	Value £000s
Housing benefit / Council Tax benefit resulting in a caution, administrative penalty, prosecution or overpayment of benefit.	337	432
Tenancy sub-letting (Wolverhampton Homes) – Illegal Subletting of Properties	27	*486
Other tenancy fraud (Wolverhampton Homes) – Fraudulent Application, Succession, Abandonment or Non Occupation	45	*810
Procurement 8 x Cloned Fuel Cards	99	£9
Debt fraud 1 x Direct Debit, 62 x Credit Card Chargebacks, 7 x Cloned Purchase Cards (46 purchases), 35 x Counterfeit Bank Notes	144	13

* based on the NFA average cost of £18,000 to house a family for a year.

4.4 The Benefits Fraud Investigations Team and Audit Services investigative a number of benefit matches reported via the National Fraud Initiative (NFI). As at 31 March 2013, 619 such matches were in progress or had been completed with 28 errors and 43 cases of fraud identified. The potential savings resulting totalled £370,000. These overpayments largely relate to benefits paid to students but also include overpayments made to Council (either Wolverhampton, or elsewhere) employees totalling £43,000 and other such cases.

4.5 In 2012/13 Audit Services also helped to identify 218 duplicate payments with a total value of £114,000 which were then stopped prior to payment. A further 76 such payments with a total value of £46,000 had been or were in the process of being recovered from suppliers.

4.6 As outlined in the report, and in light of this financial data, the Benefit Fraud Investigation Team is to be merged with Audit Services. This team comprises seven posts, including management, investigations and support, the estimated cost of which is £243,000 in 2013/14. (GE/09092013/B)

5.0 Legal implications

5.1 There are no legal implications arising from this report. (JH/05092013/K)

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 The management arrangements as detailed in this report will result in the Benefit Fraud Investigation Manager having a different reporting line through to Audit Services, and the members of the team will potentially see a change in their remit beyond Housing Benefit, Council Tax Reduction and historic Council Tax Benefits

9.0 Schedule of background papers

None

Agenda Item No: **10c**

Audit Committee

23 September 2013

Report Title	CIPFA Audit Committee Update – Issue 11	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
Accountable officer(s)	Peter Farrow Tel Email	Head of Audit 01902 55(4460) peter.farrow@wolverhampton.gov.uk

Recommendations for noting:
The Committee is asked to note:

1. The contents of the latest CIPFA Audit Committee Update, Issue 11 – helping audit committees to be effective

1.0 Purpose

1.1 CIPFA issue regular briefings for audit committee members in public sector bodies. Their aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

2.0 Background

2.1 The latest edition of these briefings covers, amongst other topics the Local Audit and Accountability Bill and the Implications for Audit Committees.

3.0 Progress, options, discussion, etc.

3.1 Progress against the requirements of the Local Audit and Accountability Bill, will be brought before the Audit Committee as and when required.

4.0 Financial implications

4.1 There are no financial implications arising from this report [GE/27082013/D].

5.0 Legal implications

5.1 There are no legal implications arising from this report. (JH/06092013/R)

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers

9.1 CIPFA Audit Committee Update – Issue 11

The Chartered Institute of Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

- helping audit committees to be effective

Issue 11

Local Audit and Accountability Bill, the Implications for Audit Committees

Update of CIPFA's Guidance on Audit Committees

Regular Briefing on Current Issues

July 2013

Introduction

Dear Audit Committee Member,

This is the 11th issue of Audit Committee Update. It contains a briefing about the latest position on the Local Audit and Accountability Bill written by Paul Mason, CIPFA Assistant Director. As the Bill goes through Parliament there may be further changes and we will update you in further issues of Audit Committee Update or on our website. The Bill does contain a range of provisions, but we have concentrated on those more directly impacting on the work of the audit committee.

In addition we include our round up of developments to help keep you informed and up to date. The round up includes a number of developments in the fields of governance, risks and counter fraud so I am sure you will find topics of interest and use here.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Issue	Principal Content	Link
1	Reviewing the audit plan	Issue 1
2	Reviewing the annual governance statement	Issue 2
3	Countering Fraud	Issue 3
4	Strategic risk management, Governance risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the impact of IFRS on the accounts, Key findings from CIPFA's survey of audit committees in local government	Issue 5
6	Partnerships from the audit committee perspective	Issue 6
7	Assurance planning, Risk outlook for 2012, Government response to the future of local audit consultation	Issue 7
8	Commissioning, procurement and contracting risks	Issue 8
9	Reviewing assurance over value for money	Issue 9
10	Public Sector Internal Audit Standards and updates to guidance on Annual Governance Statements	Issue 10

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15 October London

The annual summit features high profile speakers and addresses the governance challenges facing the public services. The full programme will be confirmed shortly along with booking details but confirmed speakers include:

- Steve Richards, political journalist with The Independent
- Sir Anthony Hooper, Chair of the Whistleblowing Commission
- Lee Glendon, Business Continuity Institute

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What will the Local Audit and Accountability Bill Mean for the Audit Committee?

Introduction

As expected, the Bill that will lead to the abolition of the Audit Commission and that will establish new arrangements for the audit and accountability of local public bodies was included in the Queen's Speech. Unexpectedly, the Bill also amends the legislative framework for council tax referendums and includes provisions regarding local authority publications. As a consequence, 'accountability' has been added to the name of the Bill.

The Local Audit and Accountability Bill was introduced in the House of Lords on 9 May 2013. There has been little change in the substance of the Bill since it was considered by the Ad-Hoc Committee, although the Bill has undergone a significant restructuring, with many of the requirements now found in the Bill's schedules. And a lot of the detail will be filled in by regulations, so watch this space...

The provisions relating to the abolition of the Audit Commission are unlikely to be of great interest to audit committee members. Similarly, the detailed requirements as to who will provide professional scrutiny of local auditors in future is unlikely to be of any great interest to members; it is vital this role is performed, but provided this scrutiny is of an appropriate standard, audit committee members are unlikely to need to worry about the details.

Appointment of auditors

Where the Bill will have a direct impact on the work of audit committees is in the establishment of new audit arrangements for local public bodies. Local public bodies (or 'relevant authorities' as the Bill refers to them) include not only those bodies in the local government sector (for example local authorities, police and crime commissioners, and chief constables) but also includes parts of the NHS (for example, clinical commissioning groups and special trustees for hospitals).

When existing audit contracts come to an end, these local public bodies will be responsible for appointing their own local auditors. The first of these new contracts are expected to start in 2017, so the procurement process will need to take place in 2016.

This appointment must be made taking into account the advice of relevant authority's auditor panel (see below). If the relevant authority does not take the advice of its auditor panel, it will have to explain why. It is clear that auditor panels will have a significant role to play in future. Equally clearly, it is important that the relationship between the auditor panel and the audit committee works well, and that there is a clear understanding of each other's role. Assuming, of course, that the auditor panel and the audit committee are not one and the same, which could happen.

Auditor panels

When the government consulted on the future of local audit, a number of responses (CIPFA's included) suggested that it would be more appropriate to strengthen the current audit committee arrangements than to introduce new auditor panels. However, the Department for Communities and Local Government has not wavered from its intention to introduce new, independent panels, and this requirement is included in the Bill.

For local authorities, the Bill requires the majority (or all) of the auditor panel members – including the Chair – to be independent. "Independent" here means independent from the local authority, as set out in Schedule 4 to the Bill:

a) *the panel member has not been a member or officer of the authority within the period of 5 years ending with that time,*
b) *the panel member has not been an officer or employee of an entity connected with the authority within that period, and*
c) *the panel member is not at that time a relative or close friend of a member or officer of the authority or an officer or employee of an entity connected with the authority.*

There are no equivalent provisions for health service bodies at present, although the Bill gives the secretary of state the power to make regulations regarding the constitution of an auditor panel for a health service body.

Interestingly, the Bill does not have any requirements regarding the skills or experience needed by auditor panel members. Neither does it consider whether it would be appropriate to have as a member someone who has recently retired from one of the potential audit firms. These are issues relevant authorities will need to bear in mind when creating their auditor panels.

The Bill permits existing audit committees to take on the role of an auditor panel, providing the independence criteria are met. The auditor panel could also be a sub-committee of the audit committee, which might address some authorities' concerns over having a majority of a local authority committee being made up of independent members. Other options include sharing an auditor panel with one or more other authorities.

Auditor panels have a duty to advise authorities on the selection and appointment of local auditors, although authorities are not bound to accept that advice. Where they do not follow the advice of their auditor panel, authorities will need to publish their reasons for choosing a different auditor.

Audit committees

Auditor panels also have a duty to advise authorities on the 'maintenance of an independent relationship with the local auditor appointed to audit its accounts.' It is not clear how active a role auditor panels will play in this regard, which cuts across the traditional territory of an audit committee. Where auditor panels meet infrequently, the role of the audit committee with regards to the external auditor may remain unchanged. Where auditor panels meet more frequently, however, there is a risk that the audit committee's role regarding the external auditor will be reduced. This could affect an audit committee's ability to take an overall view of the governance and risk arrangements for an authority.

It is therefore important that, in establishing auditor panels, consideration is given to how they will fit into the overall governance arrangements for the authority. Independent members, possibly shared with other authorities, may be a new experience for some authorities. Early consideration of how the auditor panel will interact with the audit committee – especially where the auditor panel has no members in common with the audit committee – will help the process run smoothly.

The publication of the Bill is the latest step in a long journey, and there may be further changes of direction as the Bill passes through Parliament. To meet these challenges, CIPFA will be providing guidance and advice to assist authorities as they adjust to the new arrangements.

Paul Mason

Assistant Director, Policy and Technical, CIPFA

Update of CIPFA Publication on Audit Committees

In 2005 CIPFA issued its guide *Audit Committees, Practical Guidance for Local Authorities* which has been the authoritative guidance document for audit committees across the local authority sector. Since then audit committees have become more firmly established and there have been a range of changes in professional practice and legislation, including joint audit committees supporting police & crime commissioners and chief constables and the establishment of statutory audit committees in Wales.

CIPFA will be updating the publication to reflect the changes and introducing additional guidance on developing areas of audit committee activity. We hope that the guidance will be practical and useful to both audit committee members and those working with the committee. We would welcome therefore comments and suggestions for the proposed guide. Please tell us about the following:

- What aspects of audit committee operations require further guidance?
- Are there any areas where there is confusion or a lack of clear guidance?
- What would help audit committees to improve?

In addition we would like to feature examples of good practice. If your audit committee has some good practice to share then please contact me.

The updated publication will be available towards the end of 2013.

All comments and suggestions should be sent to Diana.Melville@cipfa.org

Diana Melville

Governance Advisor

CIPFA Better Governance Forum

Developments you may need to know about:

HM Treasury Audit and Risk Assurance Committee Handbook

A new edition of the Treasury's guidance on central government audit committees has been issued. Audit and risk committees in central government are expected to report annually on their work and how they have discharged their responsibilities in accordance with the handbook.
[Audit Committee Handbook]

Annual Fraud Indicator

Each year the National Fraud Authority publishes its assessment of fraud across the UK. The latest indicator was published in June and it estimates that the level of fraud loss to the public sector is £20.6bn. This year's indictor includes a breakdown by identified and "hidden" fraud, analysis by different parts of the public sector and analysis across different fraud types. Some of the key figures to note include:

Victim	Total Estimated Fraud Loss
Tax system	£14bn
Central government (including health)	£2.6bn
Local government	£2.1bn
Benefits and tax credits system	£1.9bn

One of the largest areas of fraud in both central and local government is thought to be procurement fraud, estimated at £1.4bn and £876mn respectively.
[Annual Fraud Indicator 2013]

Public Accounts Committee Report: Financial Sustainability of Local Authorities

The report follows from the study undertaken by the National Audit Office and the hearings of the committee. It notes that government departments have undertaken insufficient modelling to understand the impact of cuts to government grant to local authorities. It also recognises the risks of service failure resulting from reduced funding while making no change to the level of statutory duties. The report makes a number of recommendations to the Department of Communities and Local Government, including its role and responsibilities in the event of multiple financial failures of local authorities.
[Public Accounts Committee Report]

Severance Agreements and Confidentiality Clauses

There has been a lot of coverage about severance agreements in the public sector, especially those that include a "gagging" clause. Most recently the National Audit Office have issued a review of central government arrangements and concluded that:

> *There is a lack of transparency, consistency and accountability in the use of compromise agreements in the public sector and little is being done to change this.*

[National Audit Office report *Confidentiality clauses and special severance payments*]

Police Audit Committees

The Better Governance Forum and the Police Network recently ran some events for newly appointed members of police audit committees. Included in the information provided for delegates attending was an analysis of the governance principles showing where the audit committee was most likely to concentrate. A copy of the document is available to download from the website.
Implementing the 6 Governance Principles in Practice – Audit Committee Roles

Whistleblowing Commission

A Whistleblowing Commission has been established by the charity Public Concern At Work to examine the existing arrangements for workplace whistleblowing and make recommendations for change. The Commission is chaired by former Court of Appeal judge Sir Anthony Hooper who will be speaking on the work of the Commission at our Governance Annual Summit in October.
Whistleblowing Commission

Consultation on Public Sector Governance

The International Federation of Accountants and CIPFA have issued a Consultation on an International Framework on Governance in the Public Sector. It is designed as a reference document for those who develop and set national governance codes for the public sector when updating and reviewing their own codes. CIPFA will consider the final framework in its own review of the Good Governance Framework.
Governance consultation

New Financial Handbook for Academies

The Education Funding Agency has issued a new financial handbook to support academies in their governance and financial management. It includes a requirement for academies to have a dedicated audit committee if their income exceeds £10mn.

Financial handbook

The Audit Committee Cycle

Reviewing the Annual Governance Statement

Audit committees may have already considered the draft AGS and supporting evidence. The final version must be published alongside the financial statements by 30 September. Issue 10 of Audit Committee Update included details of the latest guidance from CIPFA on the AGS.

The Better Governance Forum has a webinar and presentation on its website with a note about the key changes to remember for the 2012/13 AGS for local government. This can be accessed through the following link:
Annual Governance Statements webinar

One point that is often overlooked is that the AGS should be current at the point that it is published. If publication is in September then the audit committee should be satisfied that there are no material developments or changes since they first reviewed the statement or that the statement has been brought up to date. The statement should be signed shortly before publication.

Published by:

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Agenda Item No: **10d**

Audit Committee

23 September 2013

Report Title	Payment Transparency	
Classification	Public	
Cabinet Member with Lead Responsibility	Councillor Andrew Johnson Cabinet Member for Resources	
Accountable Strategic Director	Keith Ireland, Delivery	
Originating service	Delivery/Audit	
Accountable officer(s)	Peter Farrow Tel Email	Head of Audit 01902 55(4460) peter.farrow@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The Council's continued compliance with the Code of Recommended Practice, regarding the publication of all payments over £500. Also, that from 1 April 2013 the Council has continued to publish all of its payment data, rather than just restrict it to that with a value of over £500.

1.0 Purpose

1.1 This report is to update members of the Committee, that as part of the wider transparency agenda, internal audit continue to review the Council's compliance with the Code of Recommended Practice issued by the Secretary of State for Communities and Local Government and associated guidance, regarding the publication of all payments over £500, to ensure the Council meets the obligations placed upon it. Also, that in a move to increase transparency, from 1 April 2013 the Council has continued to publish all spend data, rather than just that over £500.

2.0 Background

2.1 The latest update position on the Council's payment transparency activity is as follows:

- Internal Audit are able to confirm that monthly spending data continues to be published in accordance with the Code of Recommended Practice. The raw data downloads available on spotlightonspend now include all of the Council's spending data rather than just the £500 as required by the Code of Recommended Practice.
- Since last reported to the Audit Committee, there have been no requests for information from the public (as an 'Armchair Auditor') via the mailbox available on the Council's website.

3.0 Progress, options, discussion, etc.

3.1 Quarterly updates on the number of any such 'Armchair Auditor' requests, will continue to be reported to the Committee.

4.0 Financial implications

4.1 There are no financial implications arising from this report. (GE/20130905/Y)

5.0 Legal implications

5.1 There are no legal implications arising from this report. (JH/05092013/Y)

6.0 Equalities implications

6.1 There are no equalities implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 There are no human resources implications arising from this report.

9.0 Schedule of background papers - None