| CITY OF WOLVERHAMPTON COUNCIL | **Audit and Risk Committee**<br>Thursday 26 November 2020 |
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Dear Councillor,

**AUDIT AND RISK COMMITTEE - THURSDAY 26 NOVEMBER 2020**

I am now able to enclose, for consideration at next Thursday 26th November 2020 meeting of the Audit and Risk Committee, the following reports that were unavailable when the agenda was printed.

| Agenda No | Item |
|---|---|
| 5 | **Audited Statement of Accounts (Pages 3 - 328)**<br><br>[To receive an update from the Council's external auditors on their findings in relation to the Statement of Accounts for 2019-2020]. |
| 6 | **Exclusion of the press and public**<br><br>[To pass the following resolution:<br>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 items of business as they involve the likely disclosure of exempt information falling within paragraph 3 of Schedule 12A to the Act.] |
| 7 | **Audited Statement of Accounts (Exempt) (Pages 329 - 336)**<br><br>[To receive an update from the Council's external auditors on their findings in relation to the Statement of Accounts for 2019-2020]. |

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

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Agenda Item No: 5

| CITY OF WOLVERHAMPTON COUNCIL | **Audit and Risk Committee**<br>26 November 2020 |
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|---|---|---|
| **Report title** | Audited Statement of Accounts 2019-2020 | |
| **Cabinet member with lead responsibility** | Councillor Louise Miles<br>Cabinet Member for Resources | |
| **Accountable director** | Claire Nye, Director of Finance | |
| **Originating service** | Strategic Finance | |
| **Accountable employee** | Emma Bland<br>Tel<br>Email | Finance Business Partner<br>01902 553928<br>Emma.Bland2@wolverhampton.gov.uk |
| **Report to be/has been considered by** | Not applicable. | |

**Recommendations for decision:**

The Committee is recommended to:

1. Approve the formal publication of the 2019-2020 Statement of Accounts, as required by the Accounts and Audit Regulations 2015, which require publication by 30 November 2020.

2. Approve the draft Management Representation letter which will be signed by the Director of Finance on behalf of the Council.

3. Delegate authority to the Chair of the Audit Committee to agree subsequent changes to the Statement of Accounts and Management Representation letter in consultation with the Director of Finance, should there be any audit adjustments.

**Recommendation for noting:**

The Committee is asked to note:

1. The 2019-2020 report to those charged with governance from the council's External Auditors, Grant Thornton.

## 1.0 Purpose

1.1 To update members of the Committee on Grant Thornton's audit findings in relation to the Statement of Accounts for 2019-2020, further to those presented on 29 July 2020.

## 2.0 Background

2.1 The draft Statement of Accounts was certified by the Director of Finance on 22 June 2020, in accordance with the 31 August 2020 deadline set by the Accounts and Audit Regulations 2015. They were subsequently presented to the Audit and Risk Committee on 29 July 2020.

2.2 The draft was subject to audit by the council's external auditors, Grant Thornton, which has been taking place during the last five months and is now nearing completion. The council is required by law to publish the Statement of Accounts by 30 November 2020 (Accounts and Audit Regulations 2015).

2.3 Under the council's financial procedure rules, Audit and Risk 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). The Statement is prepared in accordance with International Financial Reporting Standards (IFRS).

## 3.0 Outcome of the audit

3.1 On 28 September 2020 Grant Thornton presented their draft audit findings report, which was not yet concluded. The report attached at Appendix A provides an update on their findings.

3.2 The revised Statement of Accounts reflecting adjustments agreed with Grant Thornton will be published here: http://www.wolverhampton.gov.uk/article/3049/Corporate-finance

3.3 At the time of preparing this report, Grant Thornton are completing their work. 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.

3.4 In accordance with international auditing standards, the council is required to confirm to the external auditor that it has complied with all relevant requirements and provided all relevant information to the auditor. This takes the form of a Management Representation letter, attached at Appendix C, which has been prepared and which will be signed by the Director of Finance prior to submission to the auditor.

## 4.0 Financial implications

4.1 The statement, and audit of those statements by the external auditors, is an important element of the accountability and transparency of the council's finances.
[EB/20112020/F]

## 5.0 Legal implications

5.1 The Accounts and Audit Regulations 2015 require the 2019-2020 Statement of Accounts be produced in accordance with proper practice. This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved by 31 August 2020 and published by 30 November 2020.
[TS/20112020/R]

## 6.0 Equalities implications

6.1 There are no equality implications arising from this report

## 7.0 Climate Change and Environmental implications

7.1 There are no climate change and environmental implications arising from this report.

## 8.0 Human resources implications

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

## 9.0 Corporate landlord implications

9.1 There are no implications for the council's property portfolio arising from this report

## 10.0 Health and Wellbeing Implications

10.1 There are no health and wellbeing implications arising from this report.

## 11.0 COVID Implications

11.1 COVID implications are covered in the appendices attached.

## 12.0 Schedule of background papers

12.1 Draft Statement of Accounts 2019-2020, report to Audit Committee, 29 July 2020

12.2 Draft Audit Findings report, 28 September 2020

## 13.0 Appendices

13.1 Appendix A – The Audit Findings for City of Wolverhampton Council 2019-2020

13.2 Appendix B – Statement of Accounts 2019-2020

13.2 Appendix C – Management Representation Letter

Grant Thornton

# The Audit Findings for City of Wolverhampton Council – Update Report

**Year ended 31 March 2020**

**26 November 2020**



# Contents



**Appendices**



**Your key Grant Thornton team members are:**


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# Headlines

This report updates the Audit and Risk Committee with progress made in terms of our audit findings since the first iteration of the report, which was discussed at the Committee on 28 September 2020

The table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance, to date.

| | | |
|---|---|---|
| **Covid-19** | The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council, such as administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines as well as redeployment of staff to work on all of the above.<br><br>The Council sensibly undertook a trial run ahead of lockdown being announced to ensure that its systems were able to function remotely, which enabled teething problems in terms of access to systems to be worked through.<br><br>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. | We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 22 June 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.<br><br>Restrictions for non-essential travel has meant both Council and audit staff are conducting the audit on a wholly remote basis. This has necessitated greater reliance on technology than usual for these remote working arrangements eg video calling, physical verification of assets and completeness accuracy of information produced by the entity. Remote working has brought challenges, which have been particularly pronounced in undertaking sampling work, where remote working has not quite been able to replicate the efficiencies of being in the same building and having discussions in person.<br><br>The completion of our work by the deadline will be dependent on receiving satisfactory responses to all outstanding queries, but we thank officers for their cooperation and assistance to date. |
| **Financial Statements** | Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:<br>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and<br>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.<br><br>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. | Our audit work is in the process of completing. It began in mid-June and will be completed by the statutory deadline subject to satisfactory resolution of outstanding work and all outstanding queries. Our findings to date are summarised on pages 5 to 27.<br><br>We have raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.<br><br>The status of our work is set out on the following page and while we have not identified any matters to date that would require modification of our audit opinion, clearly this is subject to the completion of outstanding work.<br><br>We will however be including an Emphasis of Matter paragraph, highlighted material uncertainties with regard to the valuation of land and buildings, housing, and investment properties due to the issues raised by the Council's valuers in their valuation reports. The issues raised are common across all Councils valuations. The use of an Emphasis of Matter paragraph is not indicative of any control weaknesses; it simply reflects the valuer's conclusions that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. |

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of the City of Wolverhampton Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

| | |
|---|---|
| **Financial Statements** | We will also be including an Emphasis of Matter paragraph regarding Pensions PPE valuation. As above the Pension funds valuer has indicated that due to Covid-19 that there are uncertainties in the accuracy of their valuation of investment property .<br><br>The other key issues identified by our work were:<br><br>• As part of our work in comparing valuation movements year on year it was identified that the Council's valuer had provided an incorrect valuation for one of the Council's schools. The carrying value of this asset was therefore understated as at 31 March 2019 by £7,707k. The Council has restated the valuation of the school in the prior period.<br><br>• We noted that there has been a significant increase between last year's housing property valuation and this years from £751m to £838m. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018. The revaluations performed by the Council's current valuers were significantly different to those that had been done in the past, and therefore a prior period adjustment has been made to reflect these differences.<br><br>• The valuation report for Other Land and Buildings and Housing Properties did not reflect additions and disposals made during the year. The Council subsequently informed their valuer of the level and nature of the enhancement/new asset expenditure and requested that they revise their valuation to take account of this in year spend. This has now been undertaken and the revised valuation reflects this spend.<br><br>• We note that the Council has an investment in Birmingham Airport. The trading conditions for the Airport are uncertain and we note that the valuation of the Council's investment reduced from £22.3m in 2018/19 to £13m in 2019/20. The Council have made additional disclosure on these matters in its accounts.<br><br>• We note that the Council is reviewing the business plan for it's subsidiary, WV Living. |

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Wolverhampton Council ('the Council') and the preparation of the group and] Council's financial statements for the year ended 31 March 2020 for those charged with governance.

| | | |
|---|---|---|
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk based review of the Council's value for money arrangements. We have concluded that the City of Wolverhampton Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br><br>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.<br><br>We have identified nothing to date that indicates that the Council does not have proper arrangements to secure economy, efficiency and effectiveness in its use of resources but our work is still ongoing as at the time of writing. This is particularly the case in respect of the risk of the financial resilience risk we identified, where we are in ongoing dialogue with the Director of Finance and her team with respect to the ongoing impact of Covid on the Council's finances. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br><br>We expect to be able to certify the completion of the audit when we give our audit opinion but this will be dependent on the procedures pertaining to the whole of government accounts being complete which we undertake on behalf of the National Audit Office. |



**Acknowledgements**

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Status of the audit

**The outstanding matters as at the time of writing are set out below.**

- receipt of information evidencing the value of the loans to WV Living
- final consideration of the prior period adjustments made in respect of the valuations
- reviewing all amendments made to the financial statements – because of this a full list of adjusted and unadjusted misstatements has not been include in this report but will be provided once the review is complete
- receipt of granular detail in relation to the Civic Halls budget
- final manager and engagement lead review of all of the above once completed

- review of component auditor's audit files in respect of City of Wolverhampton Housing Company Limited to give us assurance over the figures used for the consolidation of the group accounts
- receipt of rationale and supporting papers for the accounting treatment of i9

- completion of our procedures on the Council's WGA pack.
- reviewing the final financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion



## Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

# Audit approach

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with the Audit and Risk Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the group and Council's business and is risk based, and in particular included:

- An evaluation of the internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

### Audit approach (continued)

We have had to alter our audit plan, as communicated to you on 22 June 2020, to reflect our response to the Covid-19 pandemic.

- We set out the key aspects of our proposed response to the significant risk we identified (which are those risks that have a high risk of material misstatement). This included action such as working with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and ensuring sufficient, corroborating audit evidence could be obtained
- We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been updated to those reporting in our audit plan due to gross revenue expenditure in the draft financial statements being different to the forecasts upon which we had based our planning materiality on. Updated materiality thresholds are shown overleaf alongside the thresholds originally reported to you in our Audit Plan shown in brackets.

# Summary

## Our approach to materiality

We detail in the table below our determination of materiality for City of Wolverhampton Council. The amounts in '()' relate to the materiality levels we reported to you in the Audit Plan, which were based on the prior year outturn gross operating expenses. The materiality levels have subsequently been revised downwards to reflect the actual gross operating expenses as reported in the draft accounts.

| | Group Amount (£) | Council Amount (£) | Qualitative factors considered |
|---|---|---|---|
| Materiality for the financial statements | 12,500,000<br>(13,100,000) | 12,400,000<br>(13,000,000) | We determined materiality for the audit of the Council's financial statements as a whole to be £12,500,000, which is approximately 1.5% of the Councils gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding. |
| Performance materiality | 9,375,000<br>(9,825,000) | 9,300,000<br>(9,750,000) | We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements.<br>• Our consideration of performance materiality is based upon a number of factors:<br>• We have not historically identified significant control deficiencies as a result of our audit work<br>• We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment<br>• There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Council<br>• Senior management and key reporting personnel in the finance function has remained stable from the prior year audit |
| Trivial matters | 625,000<br>(655,000) | 620,000<br>(650,000) | We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £620,000, which is 5% of materiality. |
| Materiality for specific transactions, balances or disclosures | Remuneration of senior officers: £40k | | In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Covid– 19** | We:<br>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported specifically as a result of Covid-19 but they have been revised to reflect the draft gross revenue expenditure. The draft financial statements were provided on 22 June 2020;<br>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluated whether sufficient audit evidence could be obtained through remote technology;<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;<br>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.<br>• engaged the use of auditor experts in respect of PPE valuations – refer to pages 10 to 14 for further detail on this work.<br>The following issues arose from our work.<br>**Material uncertainty applied to valuations** - in their reports, the Council's valuers of Council dwellings and Other Land and Buildings have both confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 15C to the financial statements and we will refer to these material valuation uncertainties in our audit report.<br>In a similar vein, the West Midlands Pension Fund has included a material valuation uncertainty in relation to its property funds which form part of the pension scheme assets. Out of £15.3bn total assets in the pension fund, property assets represent £965.1m. As the Council's share of these assets is approximately £67.6m it is material to the financial statements.<br>As with the fixed asset valuations, the Council has reflected this uncertainty in its accounts at Note 15C and we will refer to these material valuation uncertainties in our audit report.<br>**Disclosures** - we have requested that the Council updates its disclosure of post balance sheet events, to include information relating to funding received for COVID since 1 April 2020 and any other income loss or increases in expenditure. This has been included in the updated accounts at Note 2K . We note that the Narrative Report has also been updated to reflect the changing situation. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **The revenue cycle includes fraudulent transactions**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• there is little incentive to manipulate revenue recognition.<br>• opportunities to manipulate revenue recognition are very limited.<br>• the culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable.<br>**Therefore we do not consider this to be a significant risk for City of Wolverhampton Council's single entity accounts or the group accounts**.<br>We have however:<br>• evaluated the Council's accounting policy for recognition of revenues for appropriateness<br>• performed substantive testing on material revenue streams; and<br>• reviewed unusual significant transactions.<br>Our audit work has not identified any issues in respect of improper revenue recognition. |
| **Management override of controls**<br>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals. | We have:<br>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness<br>• obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness<br>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.<br>We identified from our review of the journal control environment in previous years that both the Chief Accountant and the Director of Finance had the ability to post journals. From our work during this year's audit we note that journal posting rights for these individuals have now been removed. However, there was a period during the financial year ending 31 March 2020 whereby the ability to post journals still existed. As this does not constitute best practice we engineered our testing to obtain an appropriate level of assurance that this weakness did not give rise to a possible material misstatement. From the testing performed to date we are content that these individuals did not post any journals during the period.<br>From the sample testing of journals we have found that they were appropriate, eligible and valid, and can be agreed to supporting evidence.<br>For more in-depth consideration of the Council's judgements and estimates please refer to pages 18 to 23. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings**<br>The Authority revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date.<br>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management have engaged the services of valuers to estimate the current value as at 31 March 2020.<br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.<br>We do not consider this risk to apply to the other components within the group as neither Wolverhampton Homes Limited or City of Wolverhampton Housing Company Limited has land and buildings, which it carries as property, plant and equipment. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work<br>• evaluated the competence, capabilities and objectivity of the valuation expert<br>• written to the valuer to confirm the basis on which the valuations were carried out<br>• tested on a sample basis revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements.<br><br>**Audit Findings**<br>We have challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the Housing Revenue Account, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.<br>In their reports, the Council's valuers have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 15C to the financial statements and we will refer to these material valuation uncertainties in our audit report as an emphasis of matter.<br>**Other Land and Buildings revaluation**<br>*Prior period adjustment*<br>As part of our work in comparing valuation movements year on year it was identified that the Council's valuer had provided an incorrect valuation for one of the Council's schools (Tettenhall Special School), due to a spreadsheet error which led to the valuation calculation being based on a floor area of 350 sqm rather than the correct area of 3,455 sqm.<br>This means that as at 31 March 2019 the buildings element for the school was reported at a value of £868k (using the floor area of 350 sqm) rather than £8,575k (using the correct floor area of £3,455 sqm). The carrying value of this asset was therefore understated as at 31 March 2019 by £7,707k and resulted in a downward revaluation movement being recognized and the asset being carried at a value below its true value.<br>The Council has restated the valuation of the school in the prior period therefore increasing the value of other land and buildings, and reversing any prior year downward revaluation movements.<br>In accordance with IAS 8 the Council is required to include in its disclosure:<br>a) Nature of the prior period error<br>b) For each prior period presented, the amount of the correction for each financial statement line item affected<br>c) The amount of the correction at the beginning of the earliest prior period presented; and |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings** (continued) | **Other Land and Buildings revaluation (continued)**<br>*Prior period adjustment (continued)*<br>d) If retrospective restatement is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected, (not applicable in this case as restatement is not impracticable).<br>As at the time of writing this report we are in the process of reviewing the amendments in the financial statements to satisfy ourselves that they have been made appropriately and accurately and that all relevant disclosures are made.<br>A specific written representation will be obtained from those charged with governance regarding the restatement made to correct a material misstatement in prior period financial statements that affect the comparative information.<br>*Disposals*<br>Testing identified £1.9m (net book value) of assets disposed of in the year, which had been processed as part of the Council's quality assurance processes to correct errors from prior years rather than actual disposals:<br>• £989k represented two assets (£678k and £311k) incorrectly in the Fixed Asset Register (as they are leased rather than purchased and should not have been capitalised),<br>• £926k was a duplicated asset<br>As this error relates to a prior year but is not material, no prior period amendment has been made. We consider this to be appropriate and in line with accounting standards that the correction has been made in year.<br>*Valuation errors in the current year - Parkfields Centre*<br>Significant capital expenditure of £1.3m was incurred on this asset since the previous revaluation date, however the revised valuation provided did not show any increase. Following further inquiries with the Council and Valuer it was identified that the capital spend related to the construction of a new sports barn. The valuer revisited the valuation in light of this and increase the valuation by £648k.<br>*Additions and Disposals*<br>The valuation report for Other Land and Buildings does not reflect additions and disposals made during the year. The amount recognised in the balance sheet for those assets subject to valuation in 2019/20 is the valuer's valuation plus enhancement spend in the region of £14m. There is also £6.2m of spend on new assets during 2019/20 which has not been subject to valuation and is therefore being carried at historic cost, (the largest element of which is £5.2m for Oxdale Primary School).<br>The Council subsequently informed their valuer of the level and nature of the enhancement/new asset expenditure and requested that they revise their valuation to take account of this in year spend. This has now been undertaken and the revised valuation reflects this spend. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings** (continued) | **Council Dwellings revaluation** |

*Additions and Disposals*

The valuation report for Council dwellings does not reflect Council Dwelling Asset additions and disposals made during the year. The additions relate primarily to new build properties, and the Council have attributed their own value to these properties, by using 2015 valuation data as a proxy. In the draft financial statements the carrying value on the balance sheet is the valuation per the valuer, plus additions and less disposals not notified to the valuer, plus enhancement expenditure of £21.4m incurred during the year. While the Council has followed the same process as last year, our expectation is that the value of Council Dwellings recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full housing stock as at the balance sheet date, i.e. including any additions purchased in year we have asked the Council to inform the valuer of these subsequent changes and expenditure by requesting a revised valuation report to determine the impact if any on the valuation of Council Dwellings at 31st March 2020. The revised Council Dwellings valuation takes these additions and disposals into account.

*Prior period adjustment*

We noted that there has been a significant increase between last year's valuation and this from £751m to £838m. While the increase of £87m includes additions and disposals: the revaluation increase alone is £56m which is still significant at 7.5%. We asked the Council, in conjunction with its valuer, to provide evidence that the change in revaluation is due to a legitimate increase in value, and not indicative of errors either in this year's or the prior year's valuations. The Council was unable to explain the reasons for the increase, predominantly due to the Council having a change in valuer for his financial year. The Council therefore commissioned its new valuers to value the Council Dwellings as at 31 March 2019 and also at 31 March 2018 to assist with its explanations.

(The prior two years were required to be considered on the grounds that the closing balances of 31 March 2018 are the opening balances of 31 March 2019 and therefore effect the comparative accounts on which we are opining in the current year.)

The revaluations performed by the Council's current valuers were significantly different to those that had been done in the past, and therefore a prior period adjustment has been made to reflect these differences, as follows:

| Year | Revised value £'000 | Previous value £'000 | Variance £'000 | No. properties | Average per house £ |
|---|---|---|---|---|---|
| 2019-2020 | 828,712 | 828,712 | 0 | 21,926 | 37,796 |
| 2018-2019 | 821,339 | 751,485 | 69,854 | 21,996 | 37,340 |
| 2017-2018 | 822,885 | 737,620 | 85,265 | 22,214 | 37,044 |

As can be seen above there is a variance of £85,265k as at 31 March 2018 and £69,854k as at 31 March 2019. Given the significant of these differences the accounts have been amended.

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings** (continued) | **Council Dwellings revaluation (continued)**<br>*Additions and Disposals (continued)*<br>The impact of these adjustments is to increase the carrying value of Council Dwellings on the balance sheet in these preceding years, with corresponding increases in unusable reserves (Capital Adjustment Account). The Council are also proposing to restate Other operating expenditure in 2018-19 (Increase of £1.6m from £67.4m to £69m) to reflect the impact on the loss on disposal of Council Dwellings due to the increase in value.<br>The same disclosure criteria apply here as noted on pages 10 and 11 in respect of Other Land and Buildings.<br>As at the time of writing this report we are in the process of reviewing the amendments in the financial statements to satisfy ourselves that they have been made appropriately and accurately and that all relevant disclosures are made.<br>A recommendation has been made in this regard at Appendix A asking that the Council enhance its quality assurance processes in this area as part of its preparation for future financial statements, such that it is able to justify, with details from its valuer where relevant, any significant movements in value year on year.<br>A specific written representation will be obtained from those charged with governance regarding the restatement made to correct a material misstatement in prior period financial statements that affect the comparative information.<br>*Current year valuation errors - Input error*<br>The Council have been advised by their valuer that there was an input error within the spreadsheet used to calculate the valuation of the Council dwelling stock. The effect of this is to increase their valuation by £9,965k. Consequently the adjusted valuation as at 31 March 2020 is £828,712k.<br>*Current year valuation errors - Garages*<br>The valuation of garages has seen a substantial increase when compared to the prior year valuation, due to the Council valuing them this year on the assumption that they could be let, whereas previously they were valued as void assets. This was on the assumption that these garages were not in a lettable condition however following further knowledge of the sites the valuation approach was changed. If all were void on a site previously a nominal sum was applied. For 19/20 there are 1,159 void garages and they are valued at £3,366 each giving a total valuation of £3,901k. This indicates that there is a potential understatement in the prior year of a similar quantum. We are satisfied this is not material and that no adjustment is required.<br>**Investment Property revaluation**<br>*Asset misclassification*<br>A reconciliation between the valuers report for Investment Property and the Asset Register has identified one asset which has been incorrectly included within the Other Land and Building category, instead of Investment Property. Other Land and Buildings are therefore overstated by £713k, and Investment Property understated by the same amount. This is a disclosure correction only and has no impact on the Council's surplus position. This has not been adjusted on the grounds of materiality. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of land and buildings** (continued) | **Investment Property revaluation (continued)**<br>*Opening balances*<br>Testing of Investment Property found two assets where the downward valuation movements were larger than expected. Further investigation found that this was because the land element was duplicated in the opening balance brought forward at 1 April 2019, and therefore a downward revaluation was processed during the 2019/20 financial year to correct the error. The total variance is £1,761k and means the investment property opening balance (ie that as at 31 March 2019) is overstated by £1,761k. It also means that the revaluation decreases put through in year are equally overstated by the same amount. As this error relates to a prior year but is not material, no prior period amendment has been made. We consider this to be appropriate and in line with accounting standards that the correction has been made in year.<br>**Revaluation reserve**<br>The workpaper provided by the Council in support of its revaluation reserve shows a balance of £145.9m as at 31 March 2020. This is £2.4m larger than the closing revaluation reserve balance in Note 13 of the draft financial statements. This has not been adjusted for on the grounds of materiality.<br>**Conclusion**<br>We have completed detailed testing agreeing the key inputs for a sample of valuations to supporting evidence, and considered the movements year-on-year. This has involved lengthy discussions with both the Council and its valuers, and has led to a number of amendments being identified. Following the adjustments made to the financial statements we are satisfied that the accounts are free from material misstatement. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of the pension fund net liability**<br>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£615 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions. We identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation<br>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary<br>• completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report<br>In agreeing the statement of accounts to the actuarial reports a number of differences were identified. While the primary statements had been updated to reflect a revised actuary report received by the Council, Note 9 had been erroneously omitted form this update. Note 9 has now been corrected accordingly.<br>The Council's actuaries have reported a net defined liability comprising significant "experience "items of £76.9m These are material and therefore we have investigated the breakdown of this amount to determine that items included are appropriate through dialogue with our counterparts in the pension fund who have liaised with the actuary<br>**McCloud judgement**<br>MHCLG is consulting on a remedy for the McCloud judgment that we reported upon last year. The Council's actuary has made assumptions in respect of the liability to reflect the proposed remedy. At whole fund level, the Council's actuaries expect the McCloud remedy to have a negligible cost impact and on these grounds we are satisfied that no amendments or disclosures are required.<br>**Adjustment**<br>The Council brought to our attention the need to adjust the accounts by £10.9m to ensure that the draft accounts agreed to the actuarial report. This involved making an amendment of £5.5m to correct a retrospective error from 2017/18 whereby an upfront payment made at the time was not recognised. As this figure is not material we are satisfied it is not a prior period error and that it is appropriate for it to be corrected in year.<br>Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)** | We noted in our audit plan that the public sector will implement this standard from 1 April 2020.<br><br>The guidance has subsequently been amended to be implemented from 1 April 2021. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments.<br><br>In accordance with IAS 8 disclosures of the expected impact of IFRS 16 should be included in the Council's 2019/20 financial statements. The Council has included its anticipated impact in Note 15E to the financial statements.<br><br>We have had sight of the registers that the Council has put in place to track the leases held and the resultant impact the change in accounting standards will have.<br><br>It has estimated that there will be a non-material difference of £2.8million on the balance sheet which will increase the Council's liabilities. The Council is anticipating a negligible impact on expenditure.<br><br>We have no issued to report in respect of this risk. |

# Significant findings arising from the group audit

Along with the full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements.

| Component | Component auditor | Findings | Group audit impact |
|---|---|---|---|
| **Wolverhampton Homes Limited** | Grant Thornton UK LLP | We requested that the component auditor undertake work in the following areas to provide us with the necessary assurance for the group audit:<br>• Valuation and allocation pertaining to the net pension liability as this is a figure which is material to the group accounts<br>• Consideration of the impact of Covid-19 on the financial statements as the risk is pervasive to the group accounts as a whole. | There are no findings as a result of our review of this work that impacts on the group audit. |
| **City of Wolverhampton Housing Company Limited** | Grant Thornton UK LLP | We requested that the component auditor undertake work in the following areas to provide us with the necessary assurance for the group audit:<br>• Valuation and existence of inventories as this is a figure which is material to the group accounts<br>• Consideration of the impact of Covid-19 on the financial statements as the risk is pervasive to the group accounts as a whole. | We note that the Council is reviewing the business plan for it's subsidiary, WV Living.<br>As at the time of writing we have not yet reviewed the work of the component auditor in relation to the inventory balance, which is the figure that is material to the group accounts and therefore our conclusion is outstanding pending completion of this work and our review thereon. |

We have reperformed both the group balance sheet and group CIES consolidations, and completed targeted audit procedures on material balances and consolidation adjustments as referred to above.

In addition we have reviewed the group cash flow statement and group MIRS for consistency with other work performed.

Our work on the consolidation process has not identified any issues to date to bring to your attention.

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Council Dwellings**<br>Draft: £838.4m<br>Final: £828.7m | The Council owns in excess of 22,000 properties and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.<br>The Council has engaged Jones Lang Lasalle to complete the valuation of these properties. The total net book value of Council Dwellings was £838m, a net increase of £87m from 2018/19 (£751m).<br>Management and their valuer have considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's dwellings.<br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C. | • We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• The housing stock has been divided using the external valuer's judgements and knowledge on 'Local Connections' to ensure that the stock is subdivided into groups that is deemed to be reasonable homogenous in value. This is a slight amendment to the methodology used in previous years which was based on asset group. The change has been applied in order to provide amore granular level of detail than was previously the case<br>• We have considered the indices that the valuer has used in performing the valuation and are discussing the appropriateness of these with the Council and its valuer.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate.<br>We have no matters to bring to your attention except for those already reported to you on earlier pages of this report.<br>A comprehensive amount of work has been undertaken as part of our challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances, such that any errors are identified and resolved prior to the audit process. |  <br>**Yellow/Amber** |

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Other Land and Buildings**<br>Draft: £444.3m<br>Final: £429.4m | The Council has engaged Burton Knowles to complete the valuation of these properties.<br>The Council requires assets in excess of £1m to be valued annually and the remaining assets are subject to a full, formal valuation on a five yearly cyclical basis.<br>The Council seeks assurance that any assets not valued as at 31 March 2020 are not being held at a value which would be materially different to if they had been valued as at the balance sheet date. They do this through a desktop review undertaken by their valuers to test for any material movement in market value.<br>Other land and buildings revalued in 2019/20 comprised specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.<br>The remainder of other land and buildings revalued in 2019/20 are not specialised in nature and are required to be valued at existing use value (EUV) at year end.<br>The total net book value of Other land and buildings was £444m, a net decrease of £11m from 2018/19 (£455m). Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C. | • We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. At the time of writing this report, we are still discussing the appropriateness of the indices and assumptions used by the Council's valuer with the valuer.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate.<br>As with Council Dwellings we have no matters to bring to your attention except for those already reported to you on earlier pages of this report.<br>A comprehensive amount of work has been undertaken as part of our challenge involving a significant amount of time and effort both on our part as well as on the part of the Council's estates team, finance team and valuer. We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances, such that any errors are identified and resolved prior to the audit process. | **Yellow/Amber** |



**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Investment Property**<br>Draft: £35m<br>Final: £33.9m | The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.<br>The Council has engaged Bruton Knowles to complete the valuation of these properties.<br>The year end valuation (net book value) of the Council's investment property portfolio was £35m a net decrease of £0.7m from 2018/19 (£34.3m).<br>Management and their valuer have taken into account available market data at 31 March 2020.<br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's Investment Property at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 15C. | • We have engaged our own valuer to assist with our work and challenge in this area.<br>• We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 15C in our audit report.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate.<br>• At the time of writing this report, we are in the process of testing supporting information for the detailed calculations of property valuations provided by the Council's valuers in order to perform testing to confirm that the key inputs in the valuations are accurate.<br>In addition to the issues reported to you in the earlier pages of this report we noted that the Council's valuer valued all Investment Property at a valuation date of 1st January 2020. We have applied indices to the net book value of Investment Property assets using relevant indices provided by to assess the potential movement between the valuation date and the balance sheet date. This indicates that there has been a downward movement of £1,182k, which is not material and therefore we are satisfied that there is no material difference between the fair value and the carrying value as at the balance sheet date. | **Yellow/Amber** |



**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Net pension liability**<br>Draft: £615m<br>Final: TBC | Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19m net actuarial gain during 2019/20 (£25m for the group as a whole).<br>The Council's net pension liability as at 31 March 2020 is £615m (£649m for the group) comprising obligations under the West Midlands Pension Fund Local Government pension scheme.<br>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme.<br>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. | • We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.<br>• We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Find valuation as it applies to City of Wolverhampton Council. | ● Green |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.35% (rounded up in accounts to 2.4%) | 2.35% | ● (G) |
| Pension increase rate | 1.90% | 1.85%-1.95% | ● (G) |
| Salary growth | 2.9% | 2.85%-2.95% scheme-specific | ● (G) |
| Life expectancy – Males currently aged 45 / 65 | 45: 23.8<br>65: 21.9 | 22.8 - 24.7<br>21.4 - 23.3 | ● (G) |
| Life expectancy – Females currently aged 45 / 65 | 45: 26.0<br>65: 24.1 | 25.2 – 26.2<br>23.7 – 24.7 | ● (G) |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We note from our auditor's expert that Barnett Waddingham have not made allowance for the actual level of pension increases between triennial valuation dates. However, they note that when compounded, assumed increases and actual increases have generally been similar over this period with differences of less than 0.5% (with a broadly equivalent impact on



**Assessment**

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Net pension liability** | (continued) | • liabilities). As such where material levels are at least 0.5% of the IAS19 liabilities they are comfortable that the approach taken of not allowing for actual pension increases is unlikely lead to a material difference in the liabilities as at 31 March 2020. Total IAS19 liabilities for Wolverhampton are £1,669m for LGPS and £50m for the discretionary scheme. This gives total liabilities of £1,719m. Materiality for the Council is £12.4m. This is 0.72% of total liabilities. As this is greater than 0.5% of the IAS19 liabilities stipulated by PwC in their report we are satisfied that it is unlikely that no allowance for actual level of pension increases will lead to a material difference.<br>• We have confirmed that the Council's share of the pension scheme assets is in line with expectations.<br>• Disclosure of the estimate in the financial statements is considered adequate. | Green |
| **Other accruals and estimates** | The Council continues to apply estimates and judgements in a number of areas, such as:<br>• accruals of income and expenditure<br>• recognition of school assets<br>• the preparation of group accounts | • The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting<br>• Disclosure of the estimates in the financial statements is considered to be adequate.<br>• As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balance within these have bee discussed with management in detail.<br>• We have found no material misstatements in the financial statements relating to these balances from our work to date. | Green |



**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Accounting area | Summary of management's policy | Auditor commentary | Assessment |
|---|---|---|---|
| **Level 3 investments** | The Council have an investment in Birmingham Airport Holdings (BAHL) that is valued on the balance sheet as at 31 March 2020 at £13m which is a decrease of £9m on the prior year.<br><br>The shares are not quoted on a stock exchange and are valued using non observable data and therefore a review is commissioned to.<br><br>As the investment is not traded on an open market and the valuation of the investment is subjective. In order to determine the value, management commission a review to ascertain the valuation of the investment as at the balance sheet date using an earnings based approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry, in this case, airports. | The valuation is led by Solihull Metropolitan Borough Council on behalf of all the Wests Midlands Councils who hold such shares. Due to Covid-19 pandemic there is more uncertainty than usual on such investments, particularly given that this investment is in the airport industry which has been hit hard by Covid-19 and the resulting restrictions that have been placed on tourism and travel industries.<br><br>Management have determined the fair value through use of an expert. We have appointed our own internal experts to review the valuation and are satisfied that the methodology applied is appropriate.<br><br>The fair values of loan held by the Council have been assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the loan. The assessment of loans uses Level 2 inputs, ie inputs other than quoted prices that are observable for the financial instrument. We consider this to be an appropriate designated hierarchy.<br><br>We have:<br>• Considered the reasonableness of increase/decrease in estimate<br>• Reviewed the adequacy of disclosure of estimate in the financial statements | We consider management's process is appropriate and key assumptions are neither optimistic or cautious |

# Significant findings – going concern

### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process**<br><br>Preparation of income and expenditure budgets for the year ended 31 March 2021 | Going Concern is defined as "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.'<br><br>The Authority's financial statements are prepared on going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.<br><br>Audit procedures undertaken have not found any indication of the existence of going concern events or conditions which may cast significant doubt on the Authority's ability to continue as a going concern.<br><br>The Council budget more than a year in advance: at the Council meeting in March the 2019/20 budget was agreed, which is a balanced budget without the use of reserves. The report accompanying the budget notes that work will start on developing budget reductions and income generation proposals for 2020/2021 onwards in line with the Five Year Financial Strategy, and progress will be reported to Cabinet in imminently |
| **Work performed** | It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines, and the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges, but despite this has reported a net surplus of £2m. It is reported in the Narrative Report that while the Council has been able to set a balanced budget for 2020/21 without the use of general reserves, the Council forecasts that it will need to save a further £15.6 million by 2021/22, rising to around £20 million over the medium term.<br><br>The 'Draft Budget and Medium-Term Financial Strategy 2021-2022 to 2023-2024' to Cabinet in July 2020 reported that this gap had been partly addressed and there was now a projected budget deficit of £8.7 million for 2021/22 based on the Council's Five-Year Strategy. Subject to finding and developing options to bridge this gap, the Council does not anticipate needing to use (nor would it want to use) its general fund reserves to pay its expenses in 2021/22 and has set a balanced budget for 2020/21.<br><br>We have reviewed the budgetary processes in place and would note the following:<br><br>• We are satisfied from our review of the Council's reserves balance that it has sufficiency of usable reserves (i.e. general fund and earmarked reserves) to bolster its finances should its savings plans not be delivered, but clearly reserves can only be used once.<br><br>• The Council is rightly concerned that there are a number of unknowns in its funding, particularly the accuracy with which it can project losses in the collection fund during 2021/22 as the knock-on effects of the downturn in economy impact the ability of tax-payers to pay their council tax, and for business to pay their busines rates. However, in and of itself, this is not considered to cast significant doubt on the Council's ability to continue as a going concern.<br><br>We therefore agree with the Council's conclusion that the going concern assumption is appropriate. |

# PFI scheme disclosures

The Council has 4 PFI schemes covering a leisure centre, schools and a waste incinerator which are disclosed in the financial statements. The operators financial close and accounting models for PFI schemes are highly complex and produce accounting estimates for disclosures within the accounts. The unitary charge levied by the PFI supplier contains various elements including cost of services, additions of new equipment, energy and contract inflation which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts. The accounting model requires judgements to be made in a number of areas by the Council. We have assessed the inputs from the Operator's models to produce an audit estimate for each disclosure within the financial statements. We then compare this with the Council's figures for its accounting estimate. Where the difference between the Council's and the audit accounting estimate falls within our trivial range (£0 to £620k) we are not required to report this. Where the Council's accounting estimate falls outside of this range this is reported below.

| Commentary on disclosures | Recommendations |
|---|---|
| **Note 10D – PFI liability**<br>Liability classifications –<br>• Highfield and Penn Fields schools – the Council's liability is £1.4m lower than the audit estimate. Future unitary payments: capital repayment element are also lower to reflect this difference in liability. The future unitary payment: interest is £3.4m greater than the audit estimate, with overall total future unitary payments being £2m greater than the audit estimate. The Council's disclosure of future capital expenditure/capital redemption at Note 10F does not include lifecycle capital repayments totalling £4.7m. This is an error and has been amended in the revised financial statements<br>• Waste disposal facility – no issues to report.<br>• St Matthias and Heath Park – the Council's liability is £1.7m lower than the audit estimate. Future unitary payments: interest are £1.9m greater than the audit estimate.<br>• Bentley Bridge – the Council's liability is £1.5m higher than the audit estimate. Compensating variances relating to the £1,5m difference in future unitary payments are that future interest payments are greater in the Council's model by £5.2m, and future service charge payments are lower in the Council's model by £3.7m.<br>**Comprehensive income and expenditure account**<br>Entries within the statement of comprehensive income & expenditure account in relation to service charges, interest and the impact of RPI fall within our range of estimates, therefore no issues identified.<br>**Disclosures**<br>The Code requires a number of disclosures in relation to the future commitments of the PFI schemes.<br>**Future payments for services**<br>For Bentley Bridge the total future service costs disclosed are different from the audit estimate in the range of £0.700m to £0.854m lower on the individual periods disclosed within the note. In total for Bentley Bridge the disclosure is £2.503m lower than the audit estimate.<br>**Fair value disclosures**<br>The carrying value of the PFI liability is disclosed as being equal to fair value. PFI liabilities are contractual and therefore constitute a financial instrument and while the measurement requirements do not apply (and so there is no impact on the carrying amount in the balance sheet) disclosure requirements do apply and we would expect there to be a difference between carrying value and fair value. | The differences identified against our range of estimates for the PFI scheme have been discussed with the Council.<br>Differences in each line of the disclosures have been detailed within the Commentary box. The total future payments disclosed for all PFI schemes are in line with the audit estimates. The differences are due to the way in which the indexation is allocated within the accounting models. The Council has determined not to amend the financial statements in this regard. We have accepted the Council's estimate, as the degree of variation is not material, given the nature of the schemes and the basis of the estimate. |

# Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Auditor commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed.<br>However, the Council had over-disclosed in this note and included details of transactions with organisations and individuals which did not meet the definition of related parties. This has been revised and a recommendation raised to ensure that in the preparation of the note only organisations and individuals which meet the definition of related parties are included. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A letter of representation will be requested from the Council, including specific representations in respect of the Group and is appended to this report.<br>As noted on pages 16 and 18 we have requested a specific representation in relation to the prior period adjustments as follows:<br>*We have considered the prior period adjustments included in your Audit Findings Report. The Council financial statements have been amended for these prior period errors. The prior period adjustments disclosed in the financial statement are accurate and complete. There are no other prior period errors to bring to your attention.* |
| **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to those organisations with which it banks, invests and borrows. Permission was granted and the requests were duly sent. All of these requests were returned with positive confirmation.. |
| **Disclosures** | See Appendix C for the most significant amendments made to disclosures. In addition to these a small number of amendments were made to improve clarity for the reader. |
| **Other information** | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>Inconsistencies have been identified but have been adequately rectified by management. Specifically, as group accounts are produced, the AGS is required to detail what governance arrangements are in place across the whole group and therefore we recommended that management add information to its statement to ensure that appropriate coverage was made of City of Wolverhampton Housing Company Limited, which was previously absent from the statement. A recommendation has been raised in this regard to ensure that this is considered as a matter of course in the preparation of future Annual Governance Statements.<br>We plan to issue an unmodified opinion in this respect, though we will be in dialogue with officers to ensure that the Narrative Report and any other information is updated as deemed necessary as part of our completion procedures to reflect events since the draft financial statements were produced. |

# Other matters discussed with management

We set out below details of other matters which we discussed with management.

| Issue | Auditor commentary |
|---|---|
| **Business rate appeals** | The Business Rates provision for 2019/20 is £6.6m. As in previous years, the Council has considered different options to calculate the provision for appeals. The methodology used takes the 2010 list provision (calculated based on historic trends as in previous years), adds provision for the loss and backdating of ATM appeals and then provides for high risk appeals on the 2017 list based on the historic success rates of appeals on the type of property using VOA statistics for each year from 2017-2019. Where the appeals have resulted in a reduction of 25% or more they are deemed to be high risk. The successful appeals linked to the 2017 list are then deducted from this calculation.<br>The Council also receive information from Analyse Local and compare this to their workings, after which they decide whether to rely on their workings or Analyse Local's workings. The variance between their own workings and Analyse Local is below £1m, which is the Council's threshold for using external workings.<br>We consider that the Council's approach is not unreasonable.<br>We note that if the provision was based on the successful appeals rate for the 2010 listing (using the national business multiplier rate of 4.7%) that it would be in the region of £16.6m. This was challenged with the Council but it considers the national multiplier to be too high for Wolverhampton. Due to the difference between the actual and potential provision we draw this matter to your attention. |

# Other matters for communication (continued)

| Issue | Auditor commentary |
|---|---|
| **Audit evidence and explanations/significant difficulties** | Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:<br><br>**Revisiting planning**<br>We have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.<br><br>**Management's assumptions and estimates**<br>There is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on the value of property, plant and equipment as well as on the property fund assets in the local government pension scheme to which the Council contributes.<br><br>We have also needed to resolve prior year issues with the valuation of assets and have needed to consider the valuation of both Birmingham Airport and WV Living.<br><br>**Financial resilience assessment**<br>We have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.<br><br>**Remote working**<br>The most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.<br><br>We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.<br><br>To reflect the significance of the additional work required we will be proposing an uplift to our fees for 2019/20 of 15%. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment. |

# Other responsibilities under the Code

| Issue | Commentary |
|---|---|
| **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>We have nothing to report on these matters. |
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work is not yet completed as at the time of writing though is planned to be completed by the end of November. However, this is subject to the receipt of the group instructions from the NAO which have not yet been provided (though are expected to be received in September). |
| **Certification of the closure of the audit** | We do not expect to be able to certify the conclusion of the audit yet as we do not anticipate having completed our work on the Council's Whole of Government Accounts return. The deadline for this submission has not yet been confirmed.<br>Additionally, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements. |

# Value for Money

### Background to our VFM approach

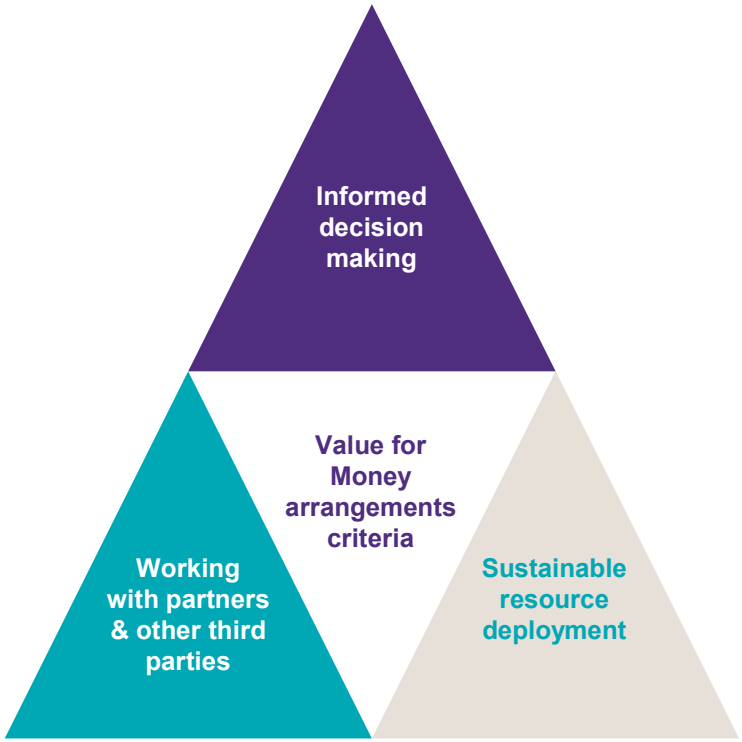
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:






### Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 23 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We are carrying out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Civic Halls Refurbishment
- Financial resilience
- Strategic Asset Management.

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### Overall conclusion

Based on the work performed to date to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources, but we note that at the time of writing there is some outstanding information we are yet to receive in relation to our consideration of Civic Halls.

# Value for Money

### Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

### Civic Halls refurbishment

**Significant Risk – what we said in our Audit Plan**

- We noted in our 2018/19 VFM conclusion that this has been a difficult and complex project for the Council. We reported that while it has sought suitable advice at all stages of the project, it has also been unfortunate in that some of the advice it was given by its advisors and contractors appears to have been inadequate.
- We also noted that the timeline and decision making had been driven by the Council's desire to maintain the Civic Halls as a cultural centre for Wolverhampton and to secure the wider economic benefit for the City. We saw that it had enabled the Council to secure significant grant funding for the project and has kept the venue open for the use of the public. It also avoided any additional costs from cancelling planned events.
- We considered, notwithstanding the above comments, that there were a number of areas in relation to costing, viability and project management, where the Council's management arrangements have not proven to be adequate, which contributed to significant delay and increased cost to the Council.
- On this basis we concluded that the management arrangement for the Civic Halls were not adequate and that therefore a qualified "except for" value for money conclusion was given. Given the conclusion reached in the prior year, it is therefore considered appropriate to follow this risk up for the 2019/20 to assess the Council's progress.



**Findings**

We have reviewed progress being made in relation to this Civic Halls refurbishment, both from a project management and budgetary point of view, and also assess how the lessons learned are being applied to other capital projects.

To aid this latter point we have discussed internal audit's involvement in the various project and programme boards and are satisfied from our discussions and the supporting documentation supplied that appropriate governance arrangements are in place and that internal audit are supporting from an advisory capacity.

**Application of lessons learned**

The Project Assurance Group (PAG) holds meetings monthly to consider all projects/programmes in train, particularly those flagged as red on the Council's project management system, Verto, as part of which the project owner will be called in to provide an update on actions being taken. The group comprises representation from the finance, legal, project and programmes, relevant directorates, and ICT to ensure that a broad skills and analysis are used in their remit to review initial project concepts to next steps and authorisation of progression of projects though the relevant gateways. Internal audit had previously reported a lack of co-ordinated approach to projects but the existence of this group considers interdependencies between teams as well a projects in order to ensure transparency.

It is a requirement for all project managers, whether internal or external, to use Verto, which means that the Council has complete oversight of via the Power BI dashboard. This shows clearly what the risks are and makes it easy to identify where projects may not be aligned to the plan. It also allows for detailed finance information to be easily obtained.

In addition to PAG there is an operational group, the focus of which is on the delivery of the Civic Halls project. It meets on a 2-weekly basis and looks over the detail of the day-to-day matter of operations, considering past actions taken, future actions required, programme overview, costs, and risks.

# Value for Money

## Civic Halls refurbishment

### Findings (continued)

There is an escalation process for issues arising from the operational group to be considered by the Civic Halls Restoration Programme Board.

**Budget**

The Council has been in liaison with contractors to determine a price for the contract within the approved budget envelope. The final cost agreed was £19m and features as part of the construction phase line as part of the overall budget.

### Conclusion

**On the basis above we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.**

However we do note that there continue to be risks associated with the delivery of this project:

- The Council needs to ensure that with any value engineering carried out, the project isn't unrealistically shoe-horned into a budget, as there is a risk that the resulting project is sub-optimal and does not meet the original objectives
- The Council needs to continue monitoring and reporting delivery of the project at all levels on a frequent basis to ensure that when problems arise it can be agile in its response.

# Value for Money

## Financial Resilience

### Significant Risk – what we said in our Audit Plan

- The Authority has historically managed its finances well, achieving financial targets. The Budget and Medium Term Financial Strategy considered by approved by Full Council in February 2019 identified that the budget for 2019/20 was in balance without the use of general reserves. general reserves and the section 151 Officer has indicated that the 2019/20 budget estimates are robust.
- However, in common with other authorities, pressures on demand led services, particularly in Children's Social Care, continue to put impact finances and as at the time of writing, per the latest Revenue Budget Monitoring Report, the Authority is forecasting an overspend against the general fund of £1.6m for 2019/20.
- However, the Medium Term Financial Strategy notes that the Council is faced with finding further budget reduction and income generation proposals totalling £19.5 million. The Council therefore needs to maintain focus on delivering its budget in 2019/20 and focussing on savings for 2020/21 and thereafter if it is to remain financially resilient and is able to address the projected future budget deficits.
- We will review the Council's Medium Term Financial Strategy and financial monitoring reports and assess the assumptions used and savings being achieved.



### Findings

**General Fund 2019/20 outturn**

In 2019/20 the Council reported a net General Fund underspend position of £1,993k against an approved budget of £234,934k. The majority of the costs associated with Covid-19 and loss of income have impacted on the Council post 31 March 2020 and will continue to do so as long as the pandemic persists.

The Government's lockdown, announced on 23 March 2020, has meant that many business have been forced to close, significantly impacting on the local economy, which in turn impacts on the Council's commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are sae during this period and that the most vulnerable are cared for.

On 2 July 2020 the government announced further funding and financial support for local authorities. These were:

- £500m of non-ringfenced grant funding for local authorities across England. The funding is similar to the first two tranches of government support and is likely to focus on additional financial burdens that have arisen from the pandemic
- A new scheme to help reimburse local authorities for lost income during the pandemic and boost cashflow for local authorities. This is predicated on Councils covering the first 5% of income losses from sales, fees and charges and the government reimbursing councils for 75 % thereafter.
- Any preceptor deficits on a council's Collection Fund can be paid over three years rather than all in one year.

# Value for Money

## Financial Resilience

### Findings (continued)

**Table 1 – 2020-2020 Revenue Budget Outturn Summary**

| Service | Net Controllable Budget 2019-2020 | Net Controllable Outturn 2019-2020 | Total Variation Over/(Under) | |
|---|---|---|---|---|
| | £000 | £000 | £000 | % |
| Adult Services | 63,801 | 63,473 | (328) | (0.51%) |
| Children's Services and Education | 57,593 | 57,198 | (395) | (0.69%) |
| Public Health and Wellbeing | 906 | 1,024 | 118 | 13.02% |
| Regeneration | 6,760 | 6,729 | (31) | (0.46%) |
| City Assets and Housing | 8,990 | 9,429 | 439 | 4.88% |
| City Environment | 22,534 | 22,804 | 270 | 1.20% |
| Finance | 13,496 | 12,720 | (776) | (5.75%) |
| Governance | 6,399 | 5,894 | (505) | (7.89%) |
| Strategy | 7,115 | 6,525 | (590) | (8.29%) |
| Chief Executive | 1,238 | 1,160 | (78) | (6.30%) |
| Deputy Chief Executive | 4,958 | 4,878 | (80) | (1.61%) |
| Corporate Accounts | 41,145 | 41,108 | (37) | (0.09%) |
| **Net Budget Requirement** | **234,934** | **232,941** | **(1,993)** | **(0.85%)** |
| Council Tax (including Adult Social Care Precept) | (103,486) | (103,486) | - | - |
| Enterprise Zone Business Rates | (2,800) | (2,184) | 616 | 22.00% |
| Top Up Grant | (26,152) | (26,152) | - | - |
| Business Rates (net of WMCA growth payment and Collection Fund deficit) | (71,931) | (72,416) | (485) | (0.67%) |
| New Homes Bonus | (2,080) | (2,080) | - | - |
| Section 31 Grant - Business Rates Support | (10,611) | (10,734) | (123) | (1.16%) |
| Improved Better Care Fund | (12,947) | (12,951) | (4) | (0.03%) |
| Winter Pressures and Social Care Grants - Adult Social Care | (3,727) | (3,728) | (1) | (0.03%) |
| Levy Account Surplus (2018-2019) | (1,200) | (1,203) | (3) | (0.25%) |
| **Total Resources** | **(234,934)** | **(234,934)** | **-** | **0.00%** |
| **Use of General Balances** | **-** | **-** | - | - |
| **Net Budget (Surplus)** | **-** | **(1,993)** | **(1,993)** | **(0.85%)** |

Whilst the positive General Fund outturn position during 2019-2020, and the resulting adjustments to reserves, will help to support the Council's short term financial position, it does not address the challenging financial position that the Council finds itself in over the medium term; namely identifying further projected budget reductions which were estimated at £15.5 million in 2021-2022, rising to around £20 million over the medium term to 2023-2024 when reported to Full Council in March 2020, which does not take into account the impact of Covid.

**Consideration of 20/21 budget**

The Council is undertaking scenario planning and closely monitoring the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process.

The Council is currently forecasting the impact of Covid -19 to be in the region of £3.0m. This comprises a mix of expenditure pressures as well as lost income generation. £19.4m has been received in additional grant funding, but this still leaves a gap to be bridged. These plans are based upon a set of assumptions which are likely to change including how long the recovery is likely to take, how much of the lost income will be recovered and how much of the pre Covid-19 income will return in time. There is also the potential for further surges in the virus and potential lockdowns.

The Council may need to look at measures to reduce spending on non-essential functions where possible in order to reduce this impact over time.

In recognition of the pressures and initial investment that will be required to support the recovery work, Cabinet on 8 July approved a specific Recovery Reserve of £3 million.

# Value for Money

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents

## Financial Resilience

**Findings (continued)**

**Savings**

The way the Council applies its savings requirements is to take the required savings out of each directorate in the budget and therefore how it monitors its savings is simply to monitor how it is performing against budget. In March 2019 the Council set a balanced budget without the use of general reserves. At this time, the forecast deficit for 2020-2021 was £27.3 million. Cabinet has been updated throughout the year as work progressed to address the deficit. In October the report to Cabinet identified opportunities in line with the Five Year Financial Strategy and analysed the potential resources available to the Council following the Spending Round 2019 announcement. Cabinet approval was sought to acknowledge the updated assumptions on Corporate Resources, one-off funding opportunities and emerging pressures within Adult Services and Waste and Recycling Services. As a result, the remaining budget deficit to be identified for 2020-2021 reduced to £3.8 million. Since October 2019, the 2020/2021 budget setting process has continued with the identification of further budget reduction proposals, emerging budget pressures and funding announcements. In summary, a balanced budget for 2020-2021 is proposed without the use of general reserves.

This demonstrates that the budget for 2020-21 is in balance without the use of general reserves and that in the opinion of the section 151 Officer the 2019-20 budget estimates are robust.

However, a further £27.3 million needs to be identified for 2020-21 and £40 to £50 million over the medium term in order to address the projected budget deficit.

**The future**

The Council recognises that there are still many uncertainties with which to grapple:

- the ongoing impact of Covid-19 costs: some costs are known but some, for instance business rate and council tax collection rates are based on assumptions as they are dependent on how much support the government continue to provide to those responsible for paying such rates and taxes and whether they find themselves able to pay.
- the ongoing impact of Covid-19 on income: the government's scheme to provide subsidy for lost income is (all relevant losses, over and above the first 5% of planned income from sales, fees and charges, will be compensated for at a rate of 75p in every pound) is welcome, but it is not clear how long the funding will last, nor what the value of the funding might be so the Council has had to make assumptions accordingly
- the results of the comprehensive spending review, which are due out later this year along with the settlement figures thereafter

The Council is aware it will need to monitor decisions from the Government with regard to funding and respond accordingly.

## Conclusion

**On that basis we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.**

# Value for Money

## Strategic Asset Management

### Significant Risk – what we said in our Audit Plan

- We reported last year that while we thought arrangements were adequate, the speed of implementation of the Council's Strategic Asset Management Plan was slow. As this remains high on the Council's agenda we will revisit progress against this for 2019/20 through discussion with officers and review of relevant documents.
- We will review the work carried out since prior year to assess whether the actions have been undertaken and are effective.

### Findings

The Strategic Asset Plan was approved at Cabinet in October 2018 and has since been published on the Council's internet site. The plan comprises three documents:

- Asset Management Policy (5 year outlook)
- Asset Management Strategy (3 year outlook)
- Asset Management Action Plan (live document with continuous monitoring).



As part of the Corporate Plan there is a principal called 'Our Assets', which is to be an enabler for public service reform, through better utilisation of the collective public sector assets in the city. This will oversee the rationalisation of the estate, improve effectiveness and efficiency of services through co-location of service delivery and reduce ongoing maintenance costs.

Objectives for this are:

- Property portfolio strategy of the operational estate

- Disposals strategy and reduction in Council-owned buildings

- Increase occupancy and utilisation of buildings

- Delivery of a 'One Public Estate' through co-location of Health and Social Care Hubs, creation of a Public Sector Hub and public sector campus type arrangements (successful OPE funding obtained to deliver feasibilities)

- Co-location of public sector providers to rationalise public sector estate

- Co-location of services to support service provision to communities

# Value for Money

## Strategic Asset Management

### Findings (continued)

In commencing 'Our Assets', the Council has established a Public Sector Asset Management Board delivering a place-based asset transformation approach, enabling collaborative working and ongoing rationalisation and disposal programmes across the public sector estate and borders. Members include University of Wolverhampton, LGA, Cabinet Office, WMCA, NHS, Blue Light services, Voluntary Sector Council, Justice Service and internal Council services.

At the Board's first meeting held on 30 January 2019 (to be held quarterly), all partners provided their commitment to collaborative working and confirmed service and asset transformation opportunities do exist, particularly within the One Public Estate agenda. Partners have shared their top five service priorities and associated asset implications to begin establishing gaps in services and possible locations for Campus type hubs/co-locations.

The council is involved in Wolverhampton Public Sector Asset Management Board and therefore shares information about Council owned assets with other organisations. The value of the work of the group is the opportunity to share information with colleagues, particularly as the organisations represented have similar property management responsibilities across Wolverhampton, and the group facilitates discussion in developing shared facilities and co-locating where applicable and appropriate, to reduce costs and improve efficiency in the management of the relevant organisations' respective property portfolios

To address the strategic management issues the Council has faced, it now has an Assets Service to: create, adopt and deliver the Strategic Asset Plan; provide professional estates management and valuation services; provide asset challenge and rationalisation; deliver the disposal programme leading to capital receipts; manage the commercial portfolio to maximise rental income and identify new delivery models to ensure the portfolio can perform to its optimum potential; lead development of the compliance strategy and implement operational arrangements for its effective management; and take part in public sector partnership collaborations.

Initial rationalisation has already taken place, on the basis of determining whether to retain or dispose a particular asset based on the spend needed to maintain it and the return it provides (either socially or financially). The key drivers behind the approach to rationalisation take include the following:

- Operating efficiently within the buildings which are needed and disposing of those that aren't;
- Addressing the essential maintenance needs of remaining buildings to prolong their operational lifespan;
- Making certain that actions are taken to ensure buildings are compliant with statutory obligations e.g. Fire, Legionella and Asbestos;
- Protecting existing income streams from assets and acquiring and/or investing in buildings where additional income can be generated;
- Improving the carbon footprint and energy efficiency in buildings and reducing running costs;
- Enabling agility in the way the Council operates by working more flexibly within the estate available, through the promotion of agile working and providing modern fit for purpose workplaces

# Value for Money

## Strategic Asset Management

### Findings (continued)

- Focusing on what customers want and need, using better accessible and inclusive facilities to serve them.

We acknowledge that the aims are laudable and the key drivers are appropriate and will provide benefit to the Council if seen through. However, there is little evidence to date of delivery of any of these plans and therefore we have made recommendations below to ensure that momentum is maintained and progress made.

### Conclusion

**On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for managing and utilising assets effectively to support the delivery of strategic priorities.**



We note however that while the arrangements are in place there is limited delivery to date. Further action is needed to:

- dispose of properties that are not needed
- manage FM costs within budget
- secure better utilisation of buildings by finalising agreements whereby office space is shared with the Council's partners.

### Management Comments

We are now in the delivery phase of the Our Assets Programme which has its own governance (Our Assets Board) and has six workstreams:

- Asset Data
- Asset Reviews
- Retained Estates
- Civic Centre
- Surplus Assets
- Asset Disposals

Since the Audit we have also established an Asset Management Board which had its inaugural meeting in February 2020. This meets bi-monthly and is attended by Portfolio Holders and Council officers to discuss the future of assets, particularly around the disposal programme (including community asset transfer).

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

# Independence and ethics

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to the date of writing, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Housing capital receipts grant 2018-19 | 2,750 | Self-Interest (because this is a recurring fee)<br><br>Self review (because GT provides audit services) | The work in respect of the year ending 31 March 2020 has not been agreed as at the time of writing in respect of Housing capital receipts but the purposes of completeness we disclose here our fees for the 2018/19 work which were accrued for in the 2018/19 financial statements but paid during the 2019/20 financial year. The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,750 in comparison to the total fee for the audit of £170.210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br><br>To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Teachers Pension Return | 4,500 | Self-Interest (because this is a recurring fee)<br><br>Self review (because GT provides audit services) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,500 in comparison to the total fee for the audit of £170,210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br><br>To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| Certification of Housing Benefit Claim | 16,000 | Self-Interest (because this is a recurring fee)<br><br>Self review (because GT provides audit services) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £170,210 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.<br><br>To mitigate against the self review threat, the timing of certification work is done after the audit has completed. Furthermore in consideration of the materiality of the amounts involved to our opinion there is an unlikelihood of material errors arising, Lastly the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |

# Action plan

We have identified 4 recommendations to date for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Annual Governance Statement**<br>The Annual Governance Statement is required to set out the governance arrangements in respect of the group, and not just the Council. | We recommend that management keep its group boundary under review and ensure that future Annual Governance Statements include details in respect of all consolidated entities within the group accounts.<br>**Management response**<br>Agreed – we will keep our group boundary under review and ensure that this is reflected in future Annual Governance Statements and that they include details in respect of all consolidated entities within the group accounts. |
| Medium | **Related Parties**<br>We discussed with officers during planning, the need to revisit the related parties note as it involved over-disclosure thereby leading to the risk that material and pertinent information was being obscured.<br>There are specific criteria set out in the Code at section 3.9.2, which must be met in order for a related party to be defined as such and the preparation of the related parties note needs to have mind to this guidance. | The related parties note in the financial statements has been revised following audit feedback, and we recommend that the Council enhance its closedown procedures to ensure that only related parties meeting the definitions are considered, and only those transactions deemed to be material with such parties are disclosure.<br>**Management response**<br>Agreed – this has been taken on board. |
| Medium | **Valuation process**<br>A number of amendments were made as a result of our audit findings in this area. | We recommend that the Council increase the amount of its own quality assurance processes for future years to understanding different methodologies and any significant variances in the valuations, such that any errors are identified and resolved prior to the audit process.<br>**Management response**<br>The Council undertakes a significant amount of quality assurance work throughout the year, however takes on board the need for enhanced scrutiny, particularly when changing valuers with different methodologies. |



**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Action plan (continued)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Additions to Council Dwellings and Other Land and Buildings**<br>The valuation reports for these assets did not originally reflect capital expenditure made during the year. Our expectation is that the value of such assets recognised on the Balance Sheet is consistent with the valuation as reported by the Council's external valuer and should include the full population of assets as at the balance sheet date, i.e. including any additions purchased in year. | We recommend that in future the Council seek to inform its valuers of any such changes in year to determine the impact of any on the valuation of assets as at the balance sheet date.<br>**Management response**<br>Whilst the Council's treatment was in accordance with existing accounting policies already in place, we take onboard the requirement to change going forwards. |



**Controls**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | The Council amended its date of valuation from 31 March to 1 April, meaning that both valuers have provided their valuations as at 1 April 2018.<br>We undertook additional work to satisfy ourselves that the values in the balance sheet as at 31 March 2019 were not materially misstated, but we recommended that the Council revisit this decision for the year ending 31 March 2020. | We recommended that the Council either perform a formal exercise each year to either ensure that all land and buildings reflect market value as at the year end where required (which includes investment and surplus properties), or otherwise are able to demonstrate that the value at which they are carried in the accounts is not materially misstated, either individually or in aggregate.<br>Management response was to change the valuation date to the end of December, in order to reduce the risk of material misstatement.<br>The revised valuation date for Other Land and Buildings as carried out by the Council's external valuers, Burton Knowles was 1 January 2020 which therefore mitigated the risk identified in the prior year recommendation.<br>The valuation date for Council Dwellings as carried out by the Council's external valuers, JLL, was 31 March 2020. |
| ✓ | We identified from our review of the journal control environment that both the Chief Accountant and the Director of Finance have the ability to post journals. In our opinion these posting rights are incompatible with the duties of these posts. The Council has a large finance team and we would therefore expect all postings to the ledger to be executed by these lower levels of staff. Directors and Deputies have direct responsibility for the financial performance of the Council and journals posting access is considered to be an enabling factor to the risk of management override of controls.<br>We therefore recommended that this access was eliminated. | This access has been duly eliminated, although we note that due to timing of when the recommendation was raised it was not removed until during the 2019/20 financial year.<br>As noted in our response to the risk of management override on page 9 we took that into account as part of our testing procedures. |



**Assessment**

✓ Action completed

X Not yet addressed

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted and unadjusted misstatements

Any adjusted and unadjusted misstatements agreed with management and made to the draft accounts will be provided by way of an update once we have completed our review of the amendments made to the financial statements.

### Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| IFRS15 disclosures | In accordance with IFRS 15 authorities should disclose qualitative and quantitative information about the nature, amount, timing and uncertainty of revenue and cash flows generated from contracts with service recipients.<br>The disclosure in the draft financial statements notes that the Council does not believe there are any revenue streams that are material impacted but when assessing if the disclosures specified in Code 2.7.4 are required, the relevant consideration is whether the transactions or balances are material, not whether the implementation of IFRS 15 results in a materially different amount of revenue.<br>The Council are considering the amendments required to this disclosure. | Yes |
| Trust Funds | Trust Funds disclosed at Note 12 are material. The Council should include an Accounting Policy for Trust Funds to explain how they are accounted for. | Yes |
| Inventories | This accounting policy needs some additional explanation as currently it refers to inventories such as stock/consumables but the material inventories held by the group relate to work in progress house builds, and therefore this accounting treatment also needs to be explained in the policy. | Yes |
| Critical Judgements | The Code requirement of critical judgements is that an authority shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 3.4.2.90), that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.<br>The disclosure should explain what the judgement is, not just a statement of accounting policy and therefore the Council are considering enhancement so this disclosure to comply fully with the Code. | Yes |
| Employee benefits | In Note 1G employee benefit line expense is reported as £234m which includes recharge cost centres in error. The revised amount after exclusion of these cost centres is £228m. Similarly the 'Other service expenses' line is understated by £7m and should be £420m, instead of £413m. | Yes |

# Audit adjustments

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| Fees and charges and other service income | In Note 1G the 'Fees and charges and other service income' line includes grant income of £264m. This should properly be disclosed on the separate 'Government grants and contributions' line at Note 1G. | Yes |
| Revaluations table | In the draft accounts the revaluation table had not been updated to include revaluations performed as at 31 March 2020. This should be amended to ensure consistency with the year end valuations. | Yes |
| Revaluations table – Other Land and Buildings | Further to the above, the revised table discloses OL&B assets revalued during 2019-20 totalling £422m. This amount includes non enhancement capital additions totalling £6.253m that have not been subject to valuation, and are effectively held at historical cost. The table should be amended to recategorise these assets between revalued at 31st March 2020 and carried at historical cost. | Yes |
| PFI | Movements on the balances for the property plant and equipment assets for Highfields & Penn Fields School, and St Matthias School are analysed as relating solely to depreciation. The line narrative should be amended as the movement is a combination of depreciation and revaluation movements. | Yes |
| PFI | The overall PFI liability £86.6m as per Note 10F can be split between short term of £4.3m long term of £82.3m. The current split in the accounts is £0.2m short term, and £86.4m long term which means short term PFI liabilities are therefore understated by £4.1m, and long term liabilities overstated by the same amount. | Yes |
| Prior year comparatives | Where figures have been restated for comparative purposes, appropriate narrative needs to be added to the note to explain that to the reader.<br>Comparatives at Note 6A are not consistent with the amounts reported in the audited 2018/19 statement of accounts. There are variances of £2.8m, £10.1m and £12.7m on the Central Government, Other Local Authority and External to Government lines.<br>Comparatives at Note 6C are not consistent with the amounts reported in the audited 2018/19 statement of accounts. There are variances of £27.8m, £1m and £29m on the Central Government, Other Local Authority and External to Government lines.<br>Comparatives at Note 10C Leases and Lease-Type Arrangements are not consistent with amounts reported in the 18-19 audited accounts.<br>Comparatives within the grants disclosure table on pages 111-113 are not consistent with amounts reported in the 18-19 audited accounts. Variances include (i) Head Start Wolverhampton £2.7m, Other grants £0.7m, and a variance on the overall total reported of £3.1m.<br>Comparatives within the Other related parties table on pages 113-115 are not consistent with amounts reported in the 18-19 audited accounts. Differences can be seen for Royal Wolverhampton Trust, West Midlands Combined Authority, West Midland Pension Fund, and the overall total for expenditure and income. | Yes |

# Audit adjustments

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| Capital adjustment account | The sum of entries in the Capital Adjustment column is reported as -£458m, but actually sums to -£454m. | Yes |
| Investment properties | There is a balance of £1.7m for accumulated depreciation brought forward at 1st April 19, and carried forward at 31 March 2020. Investment Properties are valued in full every year, and this accumulated depreciation should therefore be written back out on revaluation. An equal and opposite entry will be required within the cost section of Note 8. | Yes |
| Grants | Note 2H Grants reports total grants credited to the CIES of £362m. The sum of the individual grants disclosed however is £361m and therefore does not agree. | Yes |
| Collection Fund | The Collection Fund Statement disclosure does not meet statutory requirements as per paragraph 3.6.3.1 of the Code, figures need to be disclosed separately for Council Tax and Non-Domestic Rates rather than a single 'total' column | Yes |
| Debtors | The comparators in the accounts do not agree to last year's: they both come to a similar total but the split between categories is very different. This is because the Council changed the way it presented this note between 2018/19 and 2019/20 and the comparatives were updated to follow the same methodology to allow for fair comparison. Narrative needs to be added to the note in the accounts to explain this. | Yes |
| Senior Officers Remuneration | Remuneration in relation to the Head of Legal has been amended to correct a typo | Yes |
| Capital Commitments | The outstanding capital commitment in relation to Heath Town Regeneration Project has been amended for £10.2m to £9.6m to agree to supporting working papers.<br>Additionally the note has been expanded to include a further commitment, being the High Rise M&E Infrastructure Refurbishment for £7.3m. | Yes |
| Inventories | Where material, the Council is required to include as series of disclosures in relation to inventories:<br>a) the total carrying amount of inventories and the carrying amount in classifications appropriate to the authority<br>b) the amount of inventories recognised as an expense during the period<br>c) the amount of any write-down of inventories recognised as an expense in the period in accordance with this section of the Code<br>d) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period, and<br>e) the circumstances or events that led to the reversal of any write-down of inventories in accordance with this section of the Code. | Yes |

# Audit adjustments

### Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting | Impact on current year |
|---|---|---|---|---|---|
| We identified errors within the our testing of cut-off of expenditure resulting in over accruals amounting to £60k and under accruals amounting to £2,425k These two errors offset to a net underaccrued amount of £2,365k. | 2.4 | -2.4 | 2.4 | Not considered to be material | Not considered to be material and superseded. |
| The Council undertook its valuations as at 1 April 2018, which the exception of Council Dwellings which were valued as at 31 March 2019. We have considered the valuations of all assets and compared them to market indices. We have identified a potential understatement of £12.2m. | | Non-current assets £12.2m<br>Revaluation reserve £12.2m | - | Not considered to be material | Superseded by valuation at 31 March 2020. |
| Understatement of PFI borrowings by £2.236m which if adjusted for would have the effect of increasing the Council's liability | | -£2.2 | | Not considered to be material | Superseded by work carried out as part of current year audit. |
| An understatement of pension liabilities by approximately £1.7m in relation to the GMP pension ruling | | -£1.7 | | Not considered to be material | Superseded by work carried out as part of current year audit. |
| | | | | | |
| **Overall impact** | £2.4 | £5.9 | 2.4 | | |

# Fees

We set out below our proposed fees for the audit and provision of non-audit services.

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Council Audit | 170,210 | TBC |
| Council Audit – additional uplift as per page 29 | 25,250 | |
| Audit of subsidiary company Wolverhampton Homes Limited * | 28,285 | TBC |
| Audit of subsidiary company City of Wolverhampton Housing Company Limited (trading as WV Living) * | 22,500 | TBC |
| Audit of subsidiary company Yoo Recruit Limited (not consolidated on grounds of materiality and not therefore not included in auditor's remuneration note) | 13,000 | TBC |
| **Total audit fees (excluding VAT)** | **£256,135** | **£TBC** |



* The Council has accrued for these fees under 'Additional Work'.

| Fees for audit-related services services | Fees £'000 |
|---|---|
| • Housing capital receipts 2018-19 ** | 2,750 |
| • Housing Benefit Subsidy Claim | 16,000 |
| • Teachers Pension Return | 4,500 |
| **Total excluding those fees to be confirmed** | **23,250** |

** The audit-related services in relation to housing capital receipts has yet to be planned in respect of the year ending 31 March 2020 and therefore the fees are yet to be confirmed. The fee charged in respect of the 2018-19 financial year was £2,750. As at the balance sheet date and the date of writing we have not been appointed in respect of the 2019-20 financial year, the Council have not included the fee in their financial statements.

There were no non-audit services provided.

The fees reconcile to the financial statements as follows (extract from Note 26 of the financial statements):

| 2018-2019 Restated £m | Description | 2019-2020 £m |
|---|---|---|
| 0.158 | External Audit (Council) | 0.170 |
| 0.023 | Certification of Grant Claims and Returns | 0.021 |
| 0.047 | Additional Work (*) | 0.051 |
| **0.228** | **Total** | **0.242** |

Appendix B

2019-2020

# Statement of Accounts

CITY OF WOLVERHAMPTON COUNCIL

wolverhampton.gov.uk

# SECTION 1 - NARRATIVE REPORT

**Important Note for Readers of the Accounts**

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

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

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



**Purpose and Contents of this Document**

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

**Section 2** contains the statement of responsibilities and sets out the roles and responsibilities of the Council and of the Director of Finance in preparing the statement of accounts. The independent auditors' report is included in

**Section 3**. This report draws reader's attention to any important information they might need to consider when reading the statements.

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

> **The Comprehensive Income and Expenditure Statement** – this summarises all expenditure, income, gains and losses for the Council during the year.
>
> **The Balance Sheet** – this shows all the Council's assets, liabilities and reserves at the end of the financial year. Assets are either items that the Council owns and can use or sell in the future, or money that it is owed by other parties. Liabilities are money owed by the Council to other parties. Reserves fall into two categories: usable reserves are funds that the Council has available to spend in the future, while unusable reserves are amounts that have come about purely from accounting adjustments and are not therefore available to spend.

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

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

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

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

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

**Note 3** Other Operating Expenditure.

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

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

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

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

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

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

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

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

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

**Note 13** Movement in Reserves – this note analyses the changes in each of the Council's reserves from year to year

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

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

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

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



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

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

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

**Note on Group Accounts**

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

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

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

**Items of Interest in the Accounts**

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

**Provisions, Contingent Liabilities and Guarantees**

The Council's total level of provisions increased by £0.7 million (net) over the course of the year. Total provisions at 31 March 2020 stood at £10.2 million (2018-2019: £9.5 million): further details are provided in Note 7A to the Financial Statements.

**Capital Expenditure**

The Council once again successfully managed a large capital expenditure programme in 2019-2020, resulting in additions to non-current assets of £92.9 million, together with other capital expenditure of £63.6 million. The main additions were on council dwellings (£58.4 million), other land and buildings (£19.5 million) and infrastructure assets (£7.0 million), which reflects investment in the highway network. Information about non-current assets held by the Council can be found in Note 8.

**Net Pensions Liability**

The Council's net pension liability shows the extent to which its existing pension commitments to employees and former employees exceed the assets currently available to meet those commitments. This liability increased by £30.9 million during 2019-2020, made up of a decrease of £5.1 million in liabilities, countered by a decrease of £36.0 million in assets. The main reasons for the net movement were gains of £18.8 million resulting from changes in actuarial assumptions, net interest payable of £14.1 million, and other expenditure of £35.6 million. Note 9 to the Financial Statements provides further information on employee pensions.

In practice, the value of the net pension's liability is not entirely meaningful, because pension payments will generally not need to be made for many years, and the Pension Fund plans over long timescales as a result. Furthermore, the amount the Council must 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 several complex judgements and assumptions, variations in which can lead to significant differences in the outcome: this is discussed in Note 15 to the Financial Statements.

In 2018-2019 the Council made an upfront payment of £24.7 million in respect of pension contributions, in order to reduce interest costs. The full £24.7 million payment was accounted for as a reduction in the Council's net pension liability in 2018-2019, however accounting regulations required that the actual amount due in relation to 2018-2019, of £36.6 million, was recognised as a cost in 2018-2019. This cost is shown as a cost in the Movement in Reserves Statement (Note 13A) and in the Employee Pensions note (Note 9) for 2018-2019.

This means that there was a difference in 2018-2019, between the net pension liability and the pension reserve, equal to this upfront amount that was paid in relation to employer's contributions for 2019-2020. This difference no longer remains, now that the upfront payment has been drawn down by actual amounts due.

**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 2020, its total borrowing portfolio stood at £732.9 million, of which £629.1 million is owed to the Public Works Loan Board, £103.8 million to private sector lenders. The Council's borrowing activities are governed by the Prudential Code for Capital Finance in Local Authorities (CIPFA). Please note borrowings on the balance sheet are higher due to £5.3 million accrued interest and a £5.3 million difference between the LOBO principal cash value and amortised cost (under the Code of Practice).

**Our Council Plan**

In collaboration with partners across Wolverhampton, the Vision 2030 document captures the aspirations and priorities for the City.

*Our Vision 2030 is that Wolverhampton will be a place where people come from far and wide to work, shop, study and enjoy our vibrant city. It will be transformed while still retaining all of those attributes that give our city its unique identify. A healthy, thriving and sustainable international 'smart city' – renowned for its booming economy and skilled workforce, rich diversity and a commitment to fairness and equality that ensures everyone has the chance to benefit from success*.

It is in this context that the City of Wolverhampton Council Plan is developed. In April 2019, the Council launched its Council's Plan 2019-2024, building on the transformation journey with a focus on improving outcomes for the City. The plan sets out how, by working together, the Council will deliver on the priorities of the people of our city. The plan includes six strategic priorities which have been developed with the people of our city to ascertain their key priorities and the outcomes they want to see, to enable us to work together to deliver what matters most to local people. The six priorities come together to deliver the overall Council Plan outcome of 'Wulfrunians will live longer, healthier and more fulfilling lives'. Over the medium-term resources will continue to be aligned to enable the realisation of the Council's priorities of achieving:

- Children and young people get the best possible start in life
- Well skilled people working in an inclusive economy
- More good jobs and investment in our city
- Better homes for all
- Strong, resilient and healthy communities
- A vibrant, green city we can all be proud of

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

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

## The Medium-Term Financial Strategy 2019-2020 to 2023-2024

### General Fund

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

The Council's budget reported to Council in March 2020 was prepared pre the Covid-19 pandemic. At the time of reporting to Council, the full impact of the Covid-19 pandemic was not anticipated and the impact on both the finances and operating environment could not have been foreseen. The timing of the national lockdown and the progression of the pandemic has had limited direct impact on 2019-2020, however, the impact will be seen in 2020-2021 and future years. The impact of Covid-19, has been and will continue to be monitored and reported and Medium-Term Financial Strategy amended as appropriate to address the financial pressures faced by the Council in its response to the pandemic.

### Financial Position 2019-2020



In March 2019, the Council approved a budget incorporating a budget reduction target of £18.1 million for 2019-2020. The following table provides a high-level comparison of the Council's General Fund outturn for 2019-2020 compared with the budget. It analyses spend by Directorate, which is the format used for internal reporting to management. This table is calculated in line with the legal requirements. Detailed reports will be considered by Cabinet in July, analysing the outturn and year end reserves position in more detail and importantly, considering any impact on the budget for 2020-2021 and the medium term.

Through tight budgetary control and financial management, the Council has achieved a net underspend position at the end of 2019-2020 after taking into account net transfers to and from reserves.

As part of a review of all reserves, the General Fund Balance has been increased at the end of 2019-2020 to £13 million (representing approximately 5% of the 2020-2021 net budget). Note 13c provides a breakdown of the movement in specific earmarked reserves which total £64.6 million at the end of the financial year.

Covid-19 has had and will continue to have a significant financial impact on the Council. The impact of Covid-19 and the Council's recovery plan, 'relighting Our City', will be discussed more fully later. In recognition of the investment that will be required to support the recovery work, a specific earmarked reserve has been established. This has been in part created through the net underspend position and also by transfers from other existing earmarked reserves.

| Service | 2019-2020 Net Controllable Revised Budget<br>£ million | 2019-2020 Net Controllable Outturn<br>£ million | Total Variation Over/(Under)<br>£ million |
|---|---|---|---|
| Adult Services | 63.8 | 63.5 | (0.3) |
| Children's Services and Education | 57.6 | 57.2 | (0.4) |
| Public Health & Well Being | 0.9 | 1.0 | 0.1 |
| Regeneration | 6.8 | 6.8 | - |
| City Assets and Housing | 9.0 | 9.4 | 0.4 |
| City Environment | 22.5 | 22.8 | 0.3 |
| Finance | 13.5 | 12.7 | (0.8) |
| Governance | 6.4 | 5.9 | (0.5) |
| Strategy | 7.1 | 6.5 | (0.6) |
| Chief Executive | 1.2 | 1.1 | (0.1) |
| Deputy Chief Executive | 5.0 | 4.9 | (0.1) |
| Corporate Accounts | 41.1 | 41.1 | - |
| **Net Budget Requirement** | **234.9** | **232.9** | **(2.0)** |
| Funding: | | | |
| Council Tax (including Adult Social Care Precept) | (103.5) | (103.5) | - |
| Enterprise Zone Business Rates | (2.8) | (2.2) | 0.6 |
| Top Up Grant | (26.2) | (26.2) | - |
| Business Rates (net of WMCA growth payment and Collection Fund deficit) | (71.9) | (72.4) | (0.5) |
| New Homes Bonus | (2.1) | (2.1) | - |
| Section 31 Grant - Business Rates Support | (10.6) | (10.7) | (0.1) |

| | | | |
|---|---|---|---|
| Improved Better Care Fund | (12.9) | (12.9) | - |
| Winter Pressures and Social Care Grants - Adult Social Care | (3.7) | (3.7) | - |
| Levy Account Surplus (2018-2019) | (1.2) | (1.2) | - |
| **Total Corporate Resources** | **(234.9)** | **(234.9)** | **-** |
| **Net Budget (Surplus)/Deficit** | **-** | **(2.0)** | **(2.0)** |

**Economic Conditions**

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

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

In March 2020, Covid-19 was declared a global pandemic. The impact on both the local and national economy cannot yet be determined with any accuracy, but it is likely to have a significant impact on the economy.

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

**Social and Demographic Factors**

The City of Wolverhampton is amongst the most densely populated local authority areas in England with 262,008 (2018 mid-year estimate) people living in its 26.8 square miles. The latest Indices of Deprivation (2019) indicate that Wolverhampton is less deprived than it was four years before (2015), a change from the 17th most deprived in 2015 to 24th most deprived in 2019. Although the intensity of deprivation in the city has lessened, it is important to note that deprivation in the city continues to be concentrated in a number of 'hot spots', where the Council is seeking to intervene using a "place-based" approach.

In addition, the city's demographic profile is changing, attracting new residents and increasing diversity, and as a result Wolverhampton's population is projected to increase, circa 5.3% (approximately 14,000 extra residents) between 2020 and 2030 (2018-based population projections). This growth rate is now projected to be above the English average over the same period (circa 4.4%).

The projected increase in the population and 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, particularly exacerbated during and after the Covid-19 pandemic, and the depressed state of the local housing market, both of which increase demand for council services and the need for further investment in the city.

**The Medium-Term Financial Strategy (Pre Covid-19)**

Whilst the Council's financial planning process is driven by the annual statutory budget cycle, its horizons extend to the medium term. The Medium-Term Financial Strategy is a critical part of the Council's planning and performance framework and is kept under continuous review. The Medium-Term Financial Strategy, as approved by Full Council in March 2020 (pre Covid-19) is summarised in the table below.



| | 2020-2021 £m | 2021-2022 £m | 2022-2023 £m | 2023-2024 £m |
|---|---|---|---|---|
| Net Expenditure Budget | **248.2** | **261.8** | **273.4** | **279.5** |
| General Funding | **(248.2)** | **(246.2)** | **(253.1)** | **(260.4)** |
| **Cumulative Projected Deficit** | **-** | **15.6** | **20.3** | **19.1** |
| **Annual Projected Deficit** | **-** | **15.6** | **4.7** | **(1.2)** |

The Council has been able to set a balanced budget for 2020-2021 without the use of general reserves, however, as the table above shows, the Council forecast that it will need to save a further £15.6 million in 2021-2022, rising to around £20 million over the medium term. These budget reductions are in addition to £8.8 million of budget reductions and income generation targets that are already planned and built into the Medium-Term Financial Strategy. Further to this, the Council has already identified budget reductions in excess of £235 million over the last ten financial years.

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

The Council has developed a Five-Year Financial Strategy which is aligned to the Council Plan 2019-2024, providing the strategic framework to address the budget challenge facing the Council. The Council's strategic approach to address the deficit is aligned to the core workstreams contained within the Financial Strategy: The workstreams are:

- Promoting digital innovation
- Reducing demand
- Targeted service delivery
- Sustainable business models
- Prioritising capital investment
- Generating income
- Delivering efficiencies
- Maximising partnerships and external income

**Covid-19: The Impact**



On 11 March 2020, the World Health Organisation categorised Covid-19 as a global pandemic. This has had a significant impact on the City of Wolverhampton as it has on the rest of the UK and the world. Whilst the direct financial impact of the pandemic was limited in 2019-2020 it will have a significant impact on 2020-2021 and future years across a range of council's services and programmes. This impact has been and will continue to be closely monitored through the Medium-Term Financial Strategy and updated as appropriate.

Before Covid-19, the Council already faced significant medium-term financial challenges. In March 2019, the Council reported a forecast financial deficit £15.6 million in 2021-2022, rising to around £20 million over the medium term to 2023-2024.

**Continuing to provide essential services**

In response to the pandemic, the City of Wolverhampton Council implemented urgent crisis response and business continuity plans. The pandemic has had a significant impact on the services delivered by the Council to the residents of Wolverhampton. The Council responded swiftly to the challenge, focused on supporting the city's residents and businesses.

The Council immediately implemented an enhanced Covid-19 Governance Structure. The City Strategic Coordinating Group (CSCG) is the strategic driver having a holistic view of service delivery and pressures points and provides regular updates to the West Midlands LA Strategic Group. The City Tactical Management Group (CTMG) is the driver to deliver the actions requested by CSCG, acts as an escalation point for any issues that cannot be

resolved by the services and provides regular updates and assurance to CSCG. A number of key priorities have been identified to provide the focus of the council's response:

- Supporting the health system
- Supporting and shielding vulnerable people
- Support to city businesses
- Adult social care and supporting city care providers
- Registrar and Bereavements
- Supporting children, families and schools
- Prioritising front line services
- Assessing economic impact and planning for recovery
- Supporting those in financial hardship



Under the Council's emergency decision-making powers, a range of new short-term initiatives were implemented. The Council has played an active role in responding to the crisis, including the creation of a Food Distribution Hub that has provided meals in food parcels to the city's most vulnerable residents self-isolating due to Covid-19. The Council has procured additional Personal Protective Equipment (PPE) to enable key staff to continue to deliver services safely. Additional funding has been agreed for Adult Social Care providers to ensure market sustainability, and the Council has worked with a local hotel to set up 74 self-contained rooms to support rough sleepers and those in temporary accommodation (that was not self-contained). All of these initiatives required additional investment and have been funded to date from the Covid-19 Emergency Funding received from Central Government.

The Council has administrated a number of Government initiatives to provide support to businesses, in the form of business grants and business rates relief. The Council has also applied the Government's hardship relief scheme to Council Taxpayers of working age in receipt of Council Tax Reduction.

**A flexible and committed council workforce**

Covid-19 has had a significant impact on the council's workforce and how services are delivered. In response to Government requirements a number of council services were suspended, but the majority of council services continue to be delivered with staff working remotely. The Council has supported significant investment in IT over the last few years which enabled a transition to remote, agile working to be successful with minimal disruption to services.

Staff unable to work remotely have been redeployed to support this crisis response. Agency staff employed across suspended services have also been redeployed to support new initiatives, including the Food Distribution Hub and the Stay Safe Be Kind helpline, a dedicated helpline for residents affected by the pandemic.

For those front-line staff, where it has not been possible for them to work remotely, new safe ways of working have been introduced, including social distancing and the use of PPE where appropriate.

The Council has and continues to closely monitor the sickness levels of staff. Whilst sickness levels have reduced during the pandemic, the Council has seen an increase in the number of staff self-isolating due to Covid-19. The Council has sought to manage this where possible to continue to provide key services. This has been through overtime, temporary staff or redeployment of staff to key services.

**Supporting our supply chains**

A key priority of the Council's response has been to mitigate pressures and ensure market stability and continuation of services across the vital care sector. Providers across the health and social care are experiencing major challenges including direct increases to operating costs and in some cases a reduction in income as a result of hospital stays and decreased utilisation due to government measures and controls. The Council, under the emergency decision powers has provided additional funding to care providers. In addition, emergency PPE has been provided where appropriate.

In addition, in order to support the cashflow of suppliers to the Council, a decision was made to move to immediate payment terms for all approved expenditure and to move to daily payment runs.



**Reserves, Financial Performance and Financial Position**

The Council has played a proactive, leading role in responding to Covid-19. New initiatives, as set out above, have been implemented and will continue to require significant financial support. As the situation evolves and restrictions continue to change, some of the new initiatives will cease entirely, ease or will transition into different services which could place financial pressures on the Council.

Income streams have been adversely affected from the loss of fees and charges for services, such as car parking, events and leisure services.

In addition, the delivery of a number of planned Budget Reduction and Income Generation targets are at risk because resources that would ordinarily have been focussed on transformation programmes have been redirected to enable the Council to respond to the crisis.

The Council anticipates a significant reduction in Council Tax and Business Rates Income collected during 2020-2021 and over the medium term. The reduction in income through the Collection Fund will impact the Medium-Term Financial Plan in 2021-2022 and future years.

The Council has received a number of un-ringfenced grants, from Government to help address the pressures facing us in our response to the pandemic. Whilst it is anticipated that these grants will be sufficient to cover the immediate cost pressures, further funding is required in order to meet the full costs of the pandemic that will be seen over the medium term.

In March 2020, the Council approved the general fund Capital programme totalling £368.4 million. Given the unprecedented circumstances, there have understandably been delays on some capital schemes due to Covid-19. The Council is currently assessing the potential implications of Covid-19 on its wider capital programme in terms of delivery timescales and increases in costs.

The Council will continue to lobby government to be fully reimbursed for all cost pressures arising from Covid-19. However, if the grant funding is not sufficient then, this would have a significant impact on the Council and could result in a fundamental review of all services having to be undertaken in order to identify budget reductions sufficient enough to reduce costs over the medium term.

The outturn position for 2019-2020 has enabled the Council to create reserves to support these costs during 2020-2021 if required. This includes a Recovery Reserve which will be used to support the Councils transition from an emergency 'response' to a planned recovery and deliver the priorities set in the Council's five-point recovery plan, 'Relighting Our City'. The Council will also continue to identify efficiencies in order to mitigate against any pressures in 2020-2021 and future years.

The 2020-2021 budget and Medium-Term Strategy will be revisited during 2020-2021 to determine any action required and inform budget reduction.

The financial implications of Covid-19 along with the delay of the Government's Comprehensive Spending 2020, add significant uncertainty on the future resources and spending requirements for the Council.



**Cash flow management**

The Council has and continues to review and forecast its cashflow position to ensure it is able to meet its financial obligations. Based on detailed forecast scenarios the Council has sufficient cashflow and funds to meet its obligations and remain within the prudential indicators set out in the approved Treasury Management Strategy.

In April 2020, due to receipt of grants from Central Government in response to Covid-19, the Council temporarily exceeded the limit of £10.0 million to be held in the Council's bank account. The temporary increase was approved by the Director of Finance under the authority delegated by Council and was in place during the period 1 April 2020 to 9 April 2020.

**Major Risks to the Authority**

In response to Covid-19, the Council is having to make a number of decisions which have significant financial implications in order to support its residents, as well as complying with Government's requirements and suspending services that are a source of income for the Council. As mentioned above a number of Budget Reduction and Income Generation targets are at risk of full delivery in 2020-2021 as the Council responds to the pandemic. Government has awarded emergency funding to Councils to support pressures faced by local authorities. The Council will continue to lobby Government for the funds required to be fully reimbursed for all its costs for 2020-2021 and over the medium term.

The economic downturn resulting from Covid-19 has also had an immediate and significant detrimental impact on the Council's housing company, WV Living. Before the pandemic, WV Living was building hundreds of new and affordable homes for city residents, kick-starting the housing market. However, as a result of Covid-19 and the virtual freeze in the housing market over the last couple of months, it is anticipated that WV Living will only sell a small number of houses in the short-term, therefore, a limited amount of income will be generated over the coming weeks and possibly months. However, many of the costs of the business are still having to be paid, including payments to contractors and loan repayments to the Council**.**

The Government permitted the housing market to 'reopen' on 13 May and WV Living are maximising the opportunity to start selling again and the sales and marketing strategy is under constant review having regard for housing market conditions. In June, the Council's Cabinet considered a report on the financial position of WV Living.

**Plans for Recovery – Relighting Our City**

Whilst the Council has been responding to the unprecedented crisis cause by the pandemic, it has also been planning for recovery. A City Recovery Co-ordinating Group has been established to drive the transition from emergency response to planned recovery of services over the immediate and medium term.

Along with discharging the local authority's statutory responsibilities, our strategic recovery planning will consider whether there will be 'new normals' post Covid-19. It is anticipated that there will be longer-term implications for the Council's operating model, as the scale post Covid-19 changes place new expectations and demand on service delivery.

The Council has also undertaken extensive planning for recovery. The Council engaged with 2,500 people including residents, young people, the voluntary and community sector and other partners, employees, Councillors and businesses across the City. This engagement has shaped the Council's five-point recovery plan, 'Relighting Our City'. Relighting Our City sets out the priorities which will guide the Council's approach as the organisation and the City starts to transition from the response to the recovery phase of the pandemic. The priorities with the associated key actions and activity form a framework for recovery. The five strategic priorities are:

- Support people who need us most
- Create more opportunities for young people
- Support our vital local businesses
- Generate more jobs and learning opportunities
- Stimulate vibrant high streets and communities

Supporting the five strategic priorities are three cross cutting thematic areas:

- Climate focused: The recovery commitment is aligned to the Council's climate change strategy 'Future Generations' and our target to make the Council a net carbon zero by 2028
- Driven by digital: The City is at the forefront of digital infrastructure and innovation, and now more than ever we have seen the importance of digital skills and connectivity to social and economic participation for the City's residents
- Fair and inclusive: The Council will continue to tackle the inequalities in our communities which impact on the opportunities of local people

**Housing Revenue Account**

**Financial Position 2019-2020**

The outturn position for the year was an operating surplus of £19.9 million, compared to a budgeted surplus of £20.4 million. This position is net of a revaluation adjustment of £79.1 million included in the income and expenditure statement but not in the HRA balance. £19.9 million of the surplus has been set aside by the council as provision for the redemption of debt.

The operating surplus compared to the budgeted surplus was primarily due to higher than budgeted expenditure on Supervision and Management and lower than budgeted interest charged.

| | Budget 2019-2020 £m | Outturn 2019-2020 £m | Variance Over/(Under) £m |
|---|---|---|---|
| Income | (95.7) | (95.6) | 0.1 |
| Expenditure | 65.5 | 66.2 | 0.6 |
| **Net Cost of Services** | **(30.2)** | **(29.4)** | **0.7** |
| Net Cost of Borrowing and Investments | 9.8 | 9.6 | (0.2) |
| **Surplus for the Year** | **(20.4)** | **(19.9)** | **0.5** |
| | | | |
| **Allocation of Surplus for the Year** | | | |
| Provision for Redemption of Debt | 20.4 | 19.9 | (0.5) |
| Transfer to/(from) Reserves | - | - | - |
| **Total** | **-** | **-** | **0.0** |

The Council is planning to utilise the freedoms and resources resulting from the introduction of self-financing in April 2012 to continue to develop new affordable housing in the city, further helped by the abolition of the HRA borrowing cap in October 2018.

An updated HRA business plan was approved in January 2020. The HRA is expected to have sufficient resources to fund £2.0 billion of capital works over the next 30 years, as well as meeting its management and maintenance obligations over the same period. Capital expenditure includes a major high-rise infrastructure renewal programme and £147.4 million for new build programmes over the next five years.

In terms of 2020-2021, the plan includes an average rent increase of 2.7% in line with the requirements of the Rent Standard 2020. The table below shows the approved budget for 2020-2021, along with forecasts for the next two years.

| | Budget 2020-2021 £m | Forecast 2021-2022 £m | Forecast 2022-2023 £m |
|---|---|---|---|
| **Income** | | | |
| Gross Rents – Dwellings | (89.8) | (92.5) | (95.5) |
| Gross Rents - Non-Dwellings | (0.5) | (0.6) | (0.6) |
| Charges to Tenants for Services and Facilities | (6.2) | (6.3) | (6.5) |
| **Total Income** | **(96.5)** | **(99.4)** | **(102.6)** |
| | | | |
| **Expenditure** | | | |
| Management and Maintenance | 46.8 | 46.7 | 46.6 |
| Depreciation of Long-Term Assets | 18.3 | 18.6 | 19.0 |
| Net Financing Costs | 18.6 | 18.7 | 18.6 |
| Provision for Bad Debts | 2.0 | 2.0 | 2.0 |
| **Total Expenditure** | **85.7** | **86.0** | **86.2** |
| | | | |
| **Balance** | **(10.8)** | **(13.4)** | **(16.4)** |

**Capital Programme**

Capital expenditure is investment in the Council's property, plant, equipment and other long-life assets. It can also include investment in assets owned by other parties, in certain circumstances. Capital funding has declined significantly at a national level, but nonetheless the Council has been able to put together a capital programme that includes major projects such as Decent Homes Stock Condition Improvements, New Build Programme, City Learning Quarter, i54 Western Extension, Wolverhampton Interchange Phase 2 and Other Housing Stock Condition Improvements.

**Financial position 2019-2020**

Capital expenditure by the Council during 2019-2020 totalled £156.4 million, as set out in the following table. This was £19.2 million under budget primarily due to reprofiling of project costs and cost reductions. Many capital projects span multiple financial years and the Council's Cabinet will consider a detailed report on the full capital programme, including the outturn for 2019-2020 in July.

| Expenditure | Approved budget £m | Outturn £m | Variation Over/(Under) £m |
|---|---|---|---|
| **General Fund** | | | |
| Finance | 29.2 | 28.8 | (0.4) |
| Education and Skills | 25.4 | 20.6 | (4.8) |
| Regeneration | 24.3 | 23.9 | (0.4) |
| City Environment | 13.7 | 10.5 | (3.2) |
| Land and Property Investment Fund | 6.9 | 6.7 | (0.2) |
| City Assets and Housing | 6.5 | 4.6 | (1.9) |
| Strategy | 5.6 | 2.7 | (2.9) |
| Public Health | 0.3 | 0.2 | (0.1) |
| Children's Services | 0.1 | 0.1 | - |
| **Total General Fund** | **112.0** | **98.1** | **(13.9)** |
| | | | |
| **Housing Revenue Account** | **63.6** | **58.3** | **(5.3)** |
| | | | |
| **Total Expenditure** | **175.6** | **156.4** | **(19.2)** |

The Medium-Term Capital Programme was approved by Full Council in March 2020, pre Covid-19 and is summarised below:

| | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | TOTAL |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Forecast Expenditure** | 251.2 | 139.4 | 99.3 | 96.4 | 68.7 | 655.0 |

The following table lists some of the main projects in 2020-2021:

| Project | Forecast Expenditure 2020-2021 £m |
|---|---|
| City Learning Quarter | 31.9 |
| i54 Western Extension | 21.8 |
| Wolverhampton Interchange Phase 2 | 20.6 |
| WV Living Loans | 14.2 |
| Black Country Growth Deal | 13.7 |
| Corporate Contingency | 10.0 |
| Secondary School Expansion Programme | 7.0 |
| Operational Maintenance | 5.9 |
| Primary Expansion Programme | 5.5 |
| Highway Capital Maintenance | 5.2 |
| Corporate Initiatives | 5.0 |
| City Centre | 4.0 |
| Local Full Fibre Network | 3.9 |
| Fleet Services | 3.7 |
| Schools Modernisation, Suitability and Condition | 2.6 |

| | |
|---|---|
| ICT | 2.4 |
| Bilston Urban Village | 1.6 |
| Maintenance of Highway Structures | 1.3 |
| Highway Improvements & Active Travel | 1.3 |
| Parks Strategy & Open Spaces | 1.1 |
| Development of Cultural Estate | 0.9 |
| Growth Hub Grants | 0.8 |
| Transportation Strategy & Development | 0.8 |
| Corporate Asset Management | 0.8 |
| City Development | 0.5 |
| Sports Investment Strategy | 0.4 |
| Leisure Centres | 0.3 |
| Waste | 0.1 |
| | **167.3** |
| | |
| **Housing Private Sector** | **4.2** |
| | |
| **Housing Revenue Account** | |
| Decent Homes Stock Condition | 37.0 |
| New Build Programme | 23.1 |
| Other Stock Condition Improvements | 13.7 |
| Estate Remodelling | 2.5 |
| Service and Other Stock Condition Improvements | 2.4 |
| Adaptations for People with Disabilities | 1.0 |
| | **79.7** |
| | |
| **Grand Total** | **251.2** |

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

| Source of Funding | Forecast Expenditure 2020-2021 £m |
|---|---|
| Borrowing | 126.8 |
| Grants and Contributions | 48.9 |
| Reserve Funds | 18.0 |
| Capital Receipts | 49.3 |
| Capital Expenditure Financed from the Revenue Account | 8.2 |
| **Total** | **251.2** |



The Capital Programme was prepared pre Covid-19, and at the time of reporting to Full Council, the impact of the pandemic was unknown. Whilst there was minimal impact on the capital programme in 2019-2020, there is likely to impact on 2020-2021 and future years, including delays in projects and increased costs due to new ways of working so to comply with government requirements. The impact on the capital programme is currently being assessed. The capital programme makes a significant contribution to the shaping of the City and on the economy of the City and therefore will contribute to the Council's plans for reset and recovery from Covid-19.

# SECTION 2 – 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 Director of Finance.

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

(iii) Approve the Statement of Accounts.



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

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

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

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

(iii) Complied with the Code.

The Director of Finance has also:

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

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

**Certification of the Director of Finance**

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Council as at 31 March 2020 and its income and expenditure for the year ended on the same date.

Claire Nye
Director of Finance

Date:



**Councillor Approval for the Accounts**

Responsibility for councillor approval of the Council's Statement of Accounts lies with the Audit and Risk Committee. The Statement of Accounts was presented by the Director of Finance to the Audit and Risk Committee on 26 November 2020 and was formally approved at that meeting subject to final amendments being agreed by the Chair of the Committee.

Councillor Alan Butt
Chair, Audit and Risk Committee

Date:

## SECTION 3 – INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CITY OF WOLVERHAMPTON COUNCIL

**Leave blank for auditor's report.**

# SECTION 4 – THE FINANCIAL STATEMENTS

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

| Restated 2018-2019 | | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure £m | Gross Income £m | Net Expenditure £m | | Note | Gross Expenditure £m | Gross Income £m | Net Expenditure £m |
| 138.1 | (69.4) | 68.7 | Adult Services | | 151.2 | (78.1) | 73.1 |
| 244.3 | (157.4) | 86.9 | Children's Services and Education | | 261.0 | (160.4) | 100.6 |
| 29.9 | (25.7) | 4.2 | Public Health & Wellbeing | | 30.7 | (24.5) | 6.2 |
| 73.2 | (23.1) | 50.1 | City Environment | | 75.7 | (25.0) | 50.7 |
| 27.6 | (12.1) | 15.5 | City Assets & Housing | | 26.0 | (14.1) | 11.9 |
| 34.1 | (9.6) | 24.5 | Regeneration | | 44.8 | (9.5) | 35.3 |
| 102.1 | (98.0) | 4.1 | Finance | | 87.4 | (81.7) | 5.7 |
| 6.8 | (1.1) | 5.7 | Governance | | 6.4 | (1.8) | 4.6 |
| 4.8 | (2.0) | 2.8 | Strategy | | 3.3 | (2.1) | 1.2 |
| 1.3 | (0.1) | 1.2 | Chief Executive | | 1.4 | (0.1) | 1.3 |
| 2.7 | (0.1) | 2.6 | Deputy Chief Executive | | 4.7 | (0.1) | 4.6 |
| 11.6 | (15.4) | (3.8) | Corporate Accounts | | 3.6 | (14.4) | (10.8) |
| 1.8 | (4.2) | (2.4) | Corporate Resources | | 3.5 | (15.6) | (12.1) |
| 82.3 | (98.0) | (15.7) | Housing Revenue Account | | 91.2 | (98.0) | (6.8) |
| **760.6** | **(516.2)** | **244.4** | **Net Cost of Services** | | **790.9** | **(525.4)** | **265.5** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 69.0 | (15.5) | 53.5 | Other operating expenditure | 3 | 34.8 | (21.2) | 13.6 |
| 54.5 | (2.2) | 52.3 | Financing and investment income and expenditure | 4 | 53.0 | (3.7) | 49.3 |
| - | (263.7) | (263.7) | Taxation and non-specific grant income and expenditure | 5 | - | (268.8) | (268.8) |
| **884.1** | **(797.6)** | **86.5** | **Deficit/(Surplus) on Provision of Services** | | **878.7** | **(819.1)** | **59.6** |
| | | 4.8 | (Gain)/loss on Revaluation of Non-Current Assets | | | | 5.4 |
| | | (47.8) | Re-measurement of the net defined benefit liability | | | | (18.9) |
| | | - | Surplus or deficit on revaluation of available for sale financial assets | | | | - |
| | | (0.1) | (Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income | | | | 9.2 |
| | | **(43.1)** | **Other Comprehensive Income and Expenditure** | | | | **(4.3)** |
| | | **43.4** | **Total Comprehensive Income and Expenditure** | | | | **55.3** |

* Note 1A and Note 8 provide the details of the restatements.

## Comprehensive Income and Expenditure Statement (Group)

| Restated 2018-2019 Gross Expenditure £m | Restated 2018-2019 Gross Income £m | Restated 2018-2019 Net Expenditure £m | | Note | 2019-2020 Gross Expenditure £m | 2019-2020 Gross Income £m | 2019-2020 Net Expenditure £m |
|---|---|---|---|---|---|---|---|
| 138.1 | (69.4) | 68.7 | Adult Services | | 151.2 | (78.1) | 73.1 |
| 244.3 | (157.4) | 86.9 | Children's Services and Education | | 261.0 | (160.4) | 100.6 |
| 29.9 | (25.7) | 4.2 | Public Health & Wellbeing | | 30.7 | (24.5) | 6.2 |
| 73.2 | (23.1) | 50.1 | City Environment | | 75.7 | (25.0) | 50.7 |
| 27.6 | (12.1) | 15.5 | City Assets & Housing | | 26.0 | (14.1) | 11.9 |
| 34.1 | (9.6) | 24.5 | Regeneration | | 44.8 | (9.5) | 35.3 |
| 102.1 | (98.0) | 4.1 | Finance | | 87.4 | (81.7) | 5.7 |
| 6.8 | (1.1) | 5.7 | Governance | | 6.4 | (1.8) | 4.6 |
| 4.8 | (2.0) | 2.8 | Strategy | | 3.3 | (2.1) | 1.2 |
| 1.3 | (0.1) | 1.2 | Chief Executive | | 1.4 | (0.1) | 1.3 |
| 2.7 | (0.1) | 2.6 | Deputy Chief Executive | | 4.7 | (0.1) | 4.6 |
| 11.6 | (15.4) | (3.8) | Corporate Accounts | | 3.6 | (14.4) | (10.8) |
| 1.8 | (4.2) | (2.4) | Corporate Resources | | 3.5 | (15.6) | (12.1) |
| 84.3 | (95.7) | (11.4) | Housing Revenue Account | | 98.4 | (99.3) | (0.9) |
| **762.6** | **(513.9)** | **248.7** | **Net Cost of Services** | | **798.1** | **(526.7)** | **271.4** |
| 69.0 | (15.5) | 53.5 | Other operating expenditure | 3 | 34.8 | (21.2) | 13.6 |
| 55.7 | (2.3) | 53.5 | Financing and investment income and expenditure | 4 | 55.2 | (3.7) | 51.5 |
| - | (263.7) | (263.7) | Taxation and non-specific grant income and expenditure | 5 | - | (269.2) | (269.2) |
| **887.3** | **(795.4)** | **91.9** | **Deficit/(Surplus) on Provision of Services** | | **888.1** | **(820.8)** | **67.3** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 4.8 | (Gain)/loss on Revaluation of Non-Current Assets | | | | 5.4 |
| | | (51.1) | Re-measurement of the net defined benefit liability | | | | (28.5) |
| | | - | Surplus or deficit on revaluation of available for sale financial assets | | | | - |
| | | (0.1) | (Surplus) or deficit from investments in equity instruments designated at fair value through other comprehensive income | | | | 9.2 |
| | | **(46.4)** | **Other Comprehensive Income and Expenditure** | | | | **(13.9)** |
| | | **45.5** | **Total Comprehensive Income and Expenditure** | | | | **53.4** |

* Note 1A and Note 8 provide the details of the restatements.

## Balance Sheets

| Restated 31 March 2018 Council £m | Restated 31 March 2018 Group £m | Restated 31 March 2019 Council £m | Restated 31 March 2019 Group £m | | Note | 31 March 2020 Council £m | 31 March 2020 Group £m |
|---|---|---|---|---|---|---|---|
| 1,525.7 | *1,525.7* | 1,465.7 | *1,465.7* | Property, Plant & Equipment | 8 | 1,423.3 | *1,423.2* |
| 11.6 | *11.6* | 11.6 | *11.6* | Heritage Assets | 8 | 11.6 | *11.6* |
| 36.2 | *36.2* | 34.3 | *34.3* | Investment Property | 8 | 33.9 | *34.2* |
| 5.6 | *5.6* | 5.3 | *5.3* | Intangible Assets | 8 | 5.2 | *5.2* |
| - | *-* | - | *-* | Assets Held for Sale | 8 | - | *-* |
| 24.7 | *24.7* | 24.7 | *24.7* | Long-term Investments | | 15.5 | *15.5* |
| 1.3 | *1.3* | 1.3 | *1.3* | Long-term Debtors | | 1.3 | *1.3* |
| - | *-* | 0.1 | *0.1* | Long-term Loans to External Bodies | | - | *-* |
| **1,605.1** | ***1,605.1*** | **1543.0** | ***1543.0*** | **Long-term Assets** | | **1490.7** | ***1491.0*** |
| | | | | | | | |
| 7.6 | *7.6* | 25.3 | *25.3* | Short-Term Investments | | 30.4 | *30.4* |
| 0.4 | *2.6* | 0.5 | *8.2* | Inventories | | 0.4 | *26.4* |
| 66.5 | *65.6* | 80.8 | *74.9* | Short-Term Debtors | 6A | 110.7 | *82.0* |
| 2.2 | *16.3* | 2.8 | *14.8* | Cash and Cash Equivalents | | 1.9 | *11.3* |
| **76.7** | ***92.1*** | **109.4** | ***123.2*** | **Current Assets** | | **143.4** | ***150.1*** |
| | | | | | | | |
| (10.7) | *(10.7)* | (13.3) | *(13.3)* | Short-Term Borrowing | | (17.8) | *(17.8)* |
| (80.3) | *(84.3)* | (81.9) | *(84.4)* | Short-Term Creditors | 6C | (108.8) | *(108.2)* |
| (14.7) | *(14.7)* | (9.5) | *(9.5)* | Provisions | 7A | (10.2) | *(10.2)* |
| **(105.7)** | ***(109.7)*** | **(104.7)** | ***(107.2)*** | **Current Liabilities** | | **(136.8)** | ***(136.2)*** |
| | | | | | | | |
| (672.4) | *(672.4)* | (738.4) | *(738.4)* | Long-Term Borrowing | | (725.8) | *(725.8)* |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (640.7) | *(678.3)* | (594.6) | *(634.5)* | Net Pension Liability | 9 | (624.6) | *(658.8)* |
| (107.1) | *(107.1)* | (101.3) | *(101.3)* | Other Long-Term Liabilities | | (95.2) | *(95.2)* |
| (4.8) | *(4.8)* | (5.4) | *(5.4)* | Grant Receipts in Advance – Capital | | (5.0) | *(5.0)* |
| **(1,425.0)** | ***(1462.6)*** | **(1,439.7)** | ***(1,479.6)*** | **Long-term Liabilities** | | **(1,450.6)** | ***(1,484.4)*** |
| | | | | | | | |
| **151.1** | ***124.9*** | **108.0** | ***79.4*** | **Net Assets** | | **46.7** | ***20.2*** |
| | | | | | | | |
| **(80.8)** | ***(54.5)*** | **(89.8)** | ***(61.1)*** | **Usable Reserves** | 13A | **(101.3)** | ***(74.9)*** |
| **(70.3)** | ***(70.3)*** | **(17.8)** | ***(17.8)*** | **Unusable Reserves** | 13A | **54.6** | ***54.6*** |
| | | | | | | | |
| **(151.1)** | ***(124.9)*** | **(107.6)** | ***(78.9)*** | **Total Reserves** | | **(46.7)** | ***(20.3)*** |

* Note 1A and Note 8 provide the details of the restatements.



The notes, Housing Revenue Account Statements and Collection Fund Statement on pages 134 to 141 form part of these financial statements.

## Movement in Reserves Statement 2019-2020

(For a detailed breakdown of the figures in this Statement, see Note 13A)

| | General Fund Balance | General Fund Earmarked Reserves | Total General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied Account | Total Usable Reserves | Total Unusable Reserves | TOTAL (Council) | Reserves of the Subsidiary | TOTAL (Group) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance Brought Forward** | (9.9) | (58.7) | **(68.6)** | (7.0) | (0.8) | (8.9) | (4.4) | **(89.7)** | (17.8) | **(107.5)** | 28.7 | ***(78.7)*** |
| Prior year adjustment | | | | | | | | | 5.5 | **5.5** | | ***5.5*** |
| **As Restated** | (9.9) | (58.7) | **(68.6)** | (7.0) | (0.8) | (8.9) | (4.4) | **(89.7)** | (12.3) | **(102.0)** | 28.7 | ***(73.2)*** |
| | | | | | | | | | | | | |
| Surplus/(Deficit) on Provision of Services | 58.8 | - | **58.8** | 1.0 | - | - | - | **59.8** | - | **59.8** | 7.6 | ***67.4*** |
| | | | | | | | | | | | | |
| Other Comprehensive Income and Expenditure | - | - | **-** | - | - | - | - | **-** | (4.3) | **(4.3)** | (9.7) | ***(14.0)*** |
| | | | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 58.8 | - | **58.8** | 1.0 | - | - | - | **59.8** | (4.3) | **55.5** | (2.1) | ***53.4*** |
| | | | | | | | | | | | | |
| **Net Decrease/(Increase) before Transfers & other Movements** | 58.8 | - | **58.8** | 1.0 | - | - | - | **59.8** | (4.3) | **55.5** | (2.1) | ***53.4*** |
| | | | | | | | | | | | | |
| Adjustments between Accounting Basis & Funding Basis under Regulations | (67.9) | - | **(67.9)** | (0.9) | (0.4) | (1.4) | (0.8) | **(71.5)** | 71.4 | **(0.1)** | - | ***(0.1)*** |
| | | | | | | | | | | | | |
| Transfers to/from Earmarked Reserves | 6.0 | (6.0) | **-** | - | - | - | - | **-** | - | **-** | - | **-** |
| | | | | | | | | | | | | |
| **(Increase)/decrease for the Year** | (3.1) | (6.0) | **(9.0)** | 0.1 | (0.4) | (1.4) | (0.8) | **(11.7)** | 67.1 | **55.4** | (2.0) | ***52.8*** |
| | | | | | | | | | | | | |
| **Balance Carried Forward** | **(13.0)** | **(64.6)** | **(77.6)** | **(7.1)** | **(1.2)** | **(10.3)** | **(5.2)** | **(101.4)** | **54.8** | **(46.6)** | **26.6** | **(20.4)** |

## Movement in Reserves Statement 2018-2019

(For a detailed breakdown of the figures in this Statement, see Note 13A)

| | Restated General Fund Balance | General Fund Earmarked Reserves | Restated Total General Fund Balance | Restated Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied Account | Restated Total Usable Reserves | Restated Unusable Reserves | Restated TOTAL (Council) | Reserves of the Subsidiary | Restated TOTAL (Group) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Balance Brought Forward** | (10.0) | (55.8) | **(65.8)** | (7.0) | (4.2) | (0.4) | (3.4) | **(80.8)** | 15.0 | **(65.8)** | 27.0 | ***(38.8)*** |
| Prior year adjustment (refer to note 8) | | | | | | | | | (85.3) | **(85.3)** | (0.8) | ***(86.1)*** |
| **As Restated** | **(10.0)** | **(55.8)** | **(65.8)** | **(7.0)** | **(4.2)** | **(0.4)** | **(3.4)** | **(80.8)** | **(70.3)** | **(151.0)** | **26.2** | ***(124.8)*** |
| | | | | | | | | | | | | |
| Surplus/(Deficit) on Provision of Services | 92.7 | - | **92.7** | (6.1) | - | - | - | **86.6** | - | **86.6** | 5.8 | ***92.4*** |
| | | | | | | | | | | | | |
| Other Comprehensive Income and Expenditure | - | - | **-** | - | - | - | - | **-** | (43.1) | **(43.1)** | (3.3) | ***(46.0)*** |
| | | | | | | | | | | | | |
| Total Comprehensive Income and Expenditure | 92.7 | - | **92.7** | (6.1) | - | - | - | **86.6** | (43.1) | **43.5** | 2.5 | ***46.0*** |
| | | | | | | | | | | | | |
| **Net Decrease/(Increase) before Transfers & Other Movements** | 92.7 | - | **92.7** | (6.1) | - | - | - | **86.6** | (43.1) | **43.5** | 2.5 | ***46.0*** |
| | | | | | | | | | | | | |
| Adjustments between Accounting Basis & Funding Basis under Regulations | (95.3) | - | **(95.3)** | 6.1 | (4.7) | (0.4) | (1.0) | **(95.3)** | 95.6 | **-** | - | **-** |
| | | | | | | | | | | | | |
| Transfers to/from Earmarked Reserves | 2.9 | (2.9) | **-** | - | - | - | - | **-** | - | **-** | - | **-** |
| | | | | | | | | | | | | |
| **(Increase)/decrease for the Year** | 0.1 | (2.9) | **(2.8)** | - | (4.7) | (0.4) | (1.0) | **(8.9)** | 52.5 | **43.5** | 2.5 | ***46.0*** |
| | | | | | | | | | | | | |
| **Balance Carried Forward** | **(9.9)** | **(58.7)** | **(68.6)** | **(7.0)** | **(8.9)** | **(0.8)** | **(4.4)** | **(89.6)** | **(17.8)** | **(107.5)** | **28.7** | ***(78.8)*** |

* Note 1A and Note 8 provide the details of the restatements.

## Cash Flow Statement

| Restated 2018-2019 Council £m | Restated 2018-2019 *Group £m* | | Note | 2019-2020 Council £m | 2019-2020 *Group £m* |
|---|---|---|---|---|---|
| | | **Operating Activities** | | | |
| 86.5 | *91.9* | Net deficit on the provision of services | | 59.9 | *67.3* |
| (131.1) | *(134.4)* | Adjustment for non-cash movements | 14A | (167.3) | *(172.1)* |
| 52.7 | *52.7* | Adjustment for items that are investing and financing activities | 14B | 63.9 | *63.9* |
| **8.1** | ***10.2*** | **Net cash flows from operating activities** | 14C | **(43.5)** | ***(40.9)*** |
| | | **Investing Activities** | | | |
| 89.6 | *89.6* | Purchase of property, plant and equipment, investment property and intangible assets | | 92.9 | *92.9* |
| 476.0 | *476.0* | Purchase of short-term and long-term investments | | 437.0 | *437.0* |
| (15.5) | *(15.5)* | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | | (21.2) | *(21.2)* |
| (458.2) | *(458.2)* | Receipts from sale of short-term and long-term investments | | (431.9) | *(431.9)* |
| (0.6) | *(0.6)* | Other receipts from investing activities | | 0.4 | *0.4* |
| (37.2) | *(37.2)* | Capital grants received | | (42.7) | *(42.7)* |
| **54.1** | ***54.1*** | **Net cash flows from investing activities** | | **34.5** | ***34.5*** |
| | | **Financing Activities** | | | |
| (79.4) | *(79.4)* | Cash receipts of short-term and long-term borrowing | | - | - |
| 5.8 | *5.8* | Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts | | 1.9 | *1.9* |
| - | - | Cash receipts from Called Up Share Capital | | - | - |
| 10.8 | *10.8* | Repayments of short-and long-term borrowing | | 8.0 | *8.0* |
| **(62.8)** | ***(62.8)*** | **Net cash flows from total financing activities** | | **9.9** | ***9.9*** |
| | | | | | |
| **(0.6)** | ***1.5*** | **Net (increase) or decrease in cash and cash equivalents** | | **0.9** | ***3.5*** |
| | | **Cash and Cash Equivalents at the Start of the Year** | | | |

| | | | | | |
|---|---|---|---|---|---|
| 0.6 | *0.6* | Cash held by the Council | | 0.9 | *0.9* |
| 1.6 | *15.7* | Bank current accounts | | 1.9 | *13.9* |
| **2.2** | ***16.3*** | | | **2.8** | ***14.8*** |
| | | **Cash and Cash Equivalents at the End of the Year** | | | |
| 0.9 | *0.9* | Cash held by the Council | | 0.7 | *0.7* |
| 1.9 | *13.9* | Bank current accounts | | 1.2 | *10.6* |
| **2.8** | ***14.8*** | | | **1.9** | ***11.3*** |

* Note 1A and Note 8 provide the details of the restatements.

**Note 1A Prior Period Restatement of Service Expenditure and Income 2018-2019**

In 2019-2020 a senior management internal restructure resulted in a number of services being reclassified. The CIES and accompanying Expenditure & Funding Analysis notes have been restated for comparability. The table below shows the amounts of the reclassifications.

| Net Cost of Services | As reported in the Comprehensive Income & Expenditure Statement 2018-19 £m | Movement | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Strategic Director People £m | Adult Services £m | Children and Young People £m | Public Health & Wellbeing £m | Managing Director £m | Governance £m | Corporate Services £m | Corporate Accounts £m | Corporate Resources £m | Director of Education £m | Strategic Director Place £m | Regeneration £m |
| **Closing balances** | | 4.6 | 66.5 | 57.9 | (0.6) | 3.6 | 1.3 | 9.2 | (4.1) | (2.4) | 39.6 | 0.7 | 16.9 |
| Strategic Director People | 4.6 | (4.5) | 2.1 | | - | | | | | | | | |
| Adult Services | 66.5 | | | | - | | | | | | | | |
| Children and Young People | 57.9 | | | (57.9) | | | | | | | (0.2) | | |
| Public Health & Wellbeing | (0.6) | | | | | | | | | | | | |
| Managing Director | 3.6 | | | | | (3.6) | | | | | | | |
| Governance | 1.3 | | | | | | (0.1) | | | | | | |
| Corporate Services | 9.2 | | | | 4.8 | | | (9.2) | | | | | |
| Corporate Accounts | (4.1) | | | | | | | | 0.3 | | | (0.3) | |
| Corporate Resources | (2.4) | | | | | | | | | | | | |
| Director of Education | 39.6 | | | | | | | | | | (39.6) | | 2.2 |
| Strategic Director Place | 0.7 | | | | | | | | 0.3 | | | (0.4) | 0.1 |
| Regeneration | 16.9 | | | | | | | | | | | | (1.3) |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Commercial Services | 13.5 | | | | | | | - | | | | | |
| City Housing | 3.9 | | | | | | | | | | | | |
| City Environment | 44.5 | | | | | | | | | | | | |
| Land Property Investment Fund | 6.6 | | | | | | | | | | | | 6.6 |
| Public Service Reform | 4.8 | | | | | | 4.4 | | | | | | |
| Chief Executive | - | | | | | | | | | | | | |
| Deputy Chief Executive | - | | | | | | | | | | | | |
| Finance | - | | | | | | | | | | | | |
| City Economy | - | | | | | | | | | | | | |
| City Assets and Housing | - | | | | | | | | | | | | |
| Children's Services, Education and Skills | - | | | | | | | | | | | | |
| Housing Revenue Account | (29.5) | | | | | | | | | | | | |
| **Net Cost of Services 2018-2019 as restated in the Comprehensive Income and Expenditure Statement 2019-2020** | **237.0** | **0.1** | **68.6** | **-** | **4.2** | **-** | **5.6** | **-** | **(3.8)** | **(2.4)** | **(0.2)** | **-** | **24.5** |

| Net Cost of Services | Movement | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Commercial Services | City Housing | City Environment | Land Property Investment Fund | Public Service Reform | Chief Executive | Deputy Chief Executive | Finance | City Economy | City Assets & Housing | Children's Services and Education | Strategy |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Closing balances** | 13.5 | 3.9 | 44.5 | 6.6 | 4.8 | - | - | - | - | - | - | - |
| Strategic Director People | | | | - | | - | 0.3 | - | - | - | 2.1 | |
| Adult Services | | | | - | | - | - | - | - | - | | |
| Children and Young People | | | | | | | | | | | 57.8 | |
| Public Health & Wellbeing | | | | | | | | | | | | |
| Managing Director | | | | | | 1.2 | 1.2 | | | | | 1.2 |
| Governance | | | | | | | 0.1 | | | | | |
| Corporate Services | | | | | | | 0.1 | 4.1 | | 0.1 | | |
| Corporate Accounts | | | | | | | | | | | | |
| Corporate Resources | | | | | | | | | | | | |
| Director of Education | | | 4.3 | | | | | | | | 33.1 | |
| Strategic Director Place | 0.2 | | 0.2 | | | | | | | | | |
| Regeneration | | | 0.9 | | | | | | | | | 0.2 |
| Commercial Services | (13.5) | | (0.3) | | | | 1.0 | | | 11.3 | | 1.4 |
| City Housing | | (4.0) | | | | | | | | 4.0 | | |
| City Environment | | | 0.4 | | (0.4) | | | | | | | |
| Land Property Investment Fund | | | | (6.6) | | | | | | | | |
| Public Service Reform | | | | | (4.4) | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Chief Executive | | | | | | | | - | | | | |
| Deputy Chief Executive | | | | | | | | | | | | |
| Finance | | | | | | | | | | | | |
| City Economy | | | | | | | | | | | | |
| City Assets and Housing | | | | | | | | | | | | |
| Children's Services, Education and Skills | | | | | | | | | | | | |
| Housing Revenue Account | | | | | | | | | | | | |
| **Net Cost of Services 2018-2019 as restated in the Comprehensive Income and Expenditure Statement 2019-2020** | **-** | **(0.1)** | **50.0** | **-** | **-** | **1.2** | **2.7** | **4.1** | **-** | **15.4** | **93.0** | **2.8** |

## Note 1B - Expenditure and Funding Analysis

| Restated 2018-2019 | | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|---|
| Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | | | Net Expenditure Chargeable to the General Fund and HRA Balances | Adjustments between the Funding and Accounting Basis | Net Expenditure in the Comprehensive Income and Expenditure Statement |
| 65.9 | 2.8 | 68.7 | Adult Services | | 63.5 | 9.6 | 73.1 |
| 53.3 | 33.6 | 86.9 | Children's Services and Education | | 57.2 | 43.4 | 100.6 |
| 1.1 | 3.1 | 4.2 | Public Health & Wellbeing | | 1.0 | 5.2 | 6.2 |
| 30.3 | 19.8 | 50.1 | City Environment | | 22.8 | 27.9 | 50.7 |
| 10.2 | 5.3 | 15.5 | City Assets & Housing | | 9.4 | 2.5 | 11.9 |
| 7.0 | 17.5 | 24.5 | Regeneration | | 6.7 | 28.6 | 35.3 |
| 11.9 | (7.8) | 4.1 | Finance | | 12.7 | (7.0) | 5.7 |
| 6.2 | (0.5) | 5.7 | Governance | | 5.9 | (1.3) | 4.6 |
| 6.5 | (3.7) | 2.8 | Strategy | | 6.5 | (5.4) | 1.2 |
| 1.1 | 0.1 | 1.2 | Chief Executive | | 1.2 | 0.2 | 1.3 |
| 3.1 | (0.5) | 2.6 | Deputy Chief Executive | | 4.9 | (0.3) | 4.6 |
| 32.5 | (36.3) | (3.8) | Corporate Accounts | | 43.1 | (53.9) | (10.8) |
| (229.1) | 226.7 | (2.4) | Corporate Resources | | (234.9) | 222.8 | (12.1) |
| - | (15.7) | (15.7) | Housing Revenue Account | | - | (6.8) | (6.8) |
| **0.0** | **244.4** | **244.4** | **Net Cost of Services** | | **-** | **265.5** | **265.5** |
| **-** | **(157.9)** | **(157.9)** | **Other Income and Expenditure** | | **-** | **(205.9)** | **(205.9)** |
| **0.0** | **86.5** | **86.5** | **Surplus or Deficit** | | **-** | **59.6** | **59.6** |

The Expenditure and Funding Analysis notes have been restated in 2018-2019 to reflect the prior period restatement outlined in Note 1A and Note 8.

**Note 1C – Note to the Expenditure and Funding Analysis 2019-2020**

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts | Adjustments between Funding and Accounting | | | |
|---|---|---|---|---|
| | Adjustment for Capital Purposes | Net Change for the Pensions Adjustment | Other Differences (Note 1E) | Total Adjustments Between Funding and Accounting Basis |
| | £m | £m | £m | £m |
| Adult Services | 0.6 | 0.4 | 8.6 | **9.6** |
| Children's Services and Education | 35.5 | 1.8 | 6.1 | **43.4** |
| Public Health & Wellbeing | 1.8 | 0.1 | 3.3 | **5.2** |
| City Environment | 24.9 | 0.3 | 2.7 | **27.9** |
| City Assets & Housing | 11.3 | 0.1 | (8.9) | **2.5** |
| Regeneration | 24.0 | 0.1 | 4.5 | **28.6** |
| Finance | - | 0.1 | (7.1) | **(7.0)** |
| Governance | - | 0.1 | (1.4) | **(1.3)** |
| Strategy | 1.1 | - | (6.5) | **(5.4)** |
| Chief Executive | - | - | 0.2 | **0.2** |
| Deputy Chief Executive | 1.4 | 0.1 | (1.8) | **(0.3)** |
| Corporate Accounts | (2.2) | 2.6 | (54.3) | **(53.9)** |
| Corporate Resources | - | - | 222.8 | **222.8** |
| Housing Revenue Account | - | - | (6.8) | **(6.8)** |
| **Net Cost of Services** | **98.4** | **5.7** | **161.4** | **265.5** |
| **Other Income and Expenditure** | **-** | **-** | **(205.9)** | **(205.9)** |
| **Total** | **98.4** | **5.7** | **(44.5)** | **59.6** |

**Note 1D – Note to the Expenditure and Funding Analysis 2018-2019 (Restated)**

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement accounts | Adjustments between Funding and Accounting | | | |
|---|---|---|---|---|
| | Adjustment for Capital Purposes | Net change for the Pensions Adjustment | Other Differences (Note 1F) | Total Adjustment Between Funding and Accounting Basis |
| | £m | £m | £m | £m |
| Adult Services | 1.4 | 0.6 | 0.7 | **2.8** |
| Children's Services and Education | 36.5 | 2.3 | 7.6 | **33.6** |
| Public Health & Wellbeing | 2.3 | - | 0.7 | **3.1** |
| City Environment | 18.0 | 0.6 | 1.1 | **19.8** |
| City Assets & Housing | 12.9 | 0.3 | (8.0) | **5.3** |
| Regeneration | 13.0 | 0.3 | 4.2 | **17.5** |
| Finance | - | 0.4 | (8.2) | **(7.8)** |
| Governance | - | 0.1 | (0.6) | **(0.5)** |
| Strategy | 1.9 | 0.1 | (5.7) | **(3.7)** |
| Chief Executive | - | - | 0.1 | **0.1** |
| Deputy Chief Executive | 1.0 | 0.1 | (1.6) | **(0.5)** |
| Corporate Accounts | 4.7 | 5.1 | (46.1) | **(36.3)** |
| Corporate Resources | - | - | 226.7 | **226.7** |
| Housing Revenue Account | 13.8 | - | (29.5) | **(15.7)** |
| **Net Cost of Services** | **105.5** | **10.1** | **141.4** | **244.4** |
| Other income and Expenditure | - | - | (157.9) | (157.9) |
| **Total** | **105.5** | **10.1** | **(16.5)** | **86.5** |

**Note 1E – Other Differences Analysis 2019-2020**

| Other Differences | Reserve | Grants | External Trading Operations | Financing and Investment Income and Expenditure | Other Operating Expenditure | Taxation and Non-Specific Grant Income and Expenditure | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Adult Services | 3.8 | 0.2 | - | - | - | - | 4.6 | 8.6 |
| Children's Services and Education | (1.7) | - | - | - | - | - | 7.8 | 6.1 |
| Public Health & Wellbeing | 1.0 | - | - | - | - | - | 2.3 | 3.3 |
| City Environment | - | | 0.3 | | | | 2.4 | 2.7 |
| City Assets & Housing | - | (0.2) | - | | | | (8.7) | (8.9) |
| Regeneration | 0.5 | (0.1) | | | | | 4.1 | 4.5 |
| Finance | (1.0) | 0.1 | - | - | - | - | (6.2) | (7.1) |
| Governance | - | - | - | - | - | - | (1.4) | (1.4) |
| Strategy | (0.3) | - | - | - | - | - | (6.2) | (6.5) |
| Chief Executive | - | - | - | - | - | - | 0.2 | 0.2 |
| Deputy Chief Executive | 0.1 | - | - | - | - | - | (1.9) | (1.8) |
| Corporate Resources | - | (9.2) | - | - | - | 232.0 | - | 222.8 |
| Corporate Accounts | (16.3) | - | - | - | - | - | (38.0) | (54.3) |
| Housing Revenue Account | 1.0 | - | - | (9.6) | 1.7 | - | 0.1 | (6.8) |
| **Net Cost of Services** | **(12.9)** | **(9.2)** | **0.3** | **(9.6)** | **1.7** | **232.0** | **(40.9)** | **161.4** |

**Note 1F – Other Differences Analysis 2018-2019**

| Other Differences | Reserve | Grants | External Trading Operations | Financing and Investment Income and Expenditure | Other Operating Expenditure | Taxation and Non-Specific Grant Income and Expenditure | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Adult Services | 3.7 | 0.6 | - | - | - | - | (3.5) | **0.7** |
| Children's Services and Education | (0.5) | - | - | - | - | - | 8.0 | **7.5** |
| Public Health & Wellbeing | 0.8 | (0.9) | - | - | - | - | 0.8 | **0.7** |
| City Environment | 0.4 | - | (0.4) | - | - | - | 1.2 | **1.1** |
| City Assets & Housing | (0.3) | (0.1) | - | - | - | - | (7.6) | **(8.0)** |
| Regeneration | 0.1 | - | - | - | - | - | 4.1 | **4.2** |
| Finance | 2.1 | (0.4) | - | - | - | - | (9.9) | **(8.2)** |
| Governance | - | 0.3 | - | - | - | - | (1.0) | **(0.6)** |
| Strategy | - | 0.1 | - | - | - | - | (5.8) | **(5.7)** |
| Chief Executive | - | - | - | - | - | - | 0.1 | **0.1** |
| Deputy Chief Executive | - | - | - | - | - | - | (1.6) | **(1.6)** |
| Corporate Accounts | (6.2) | - | - | 24.6 | 6.9 | 1.4 | (72.8) | **(46.1)** |
| Corporate Resources | - | (1.3) | - | - | - | (129.3) | 357.3 | **226.7** |
| Housing Revenue Account | - | - | - | - | 1.0 | - | (30.5) | **(29.5)** |
| **Net Cost of Services** | **0.1** | **(1.7)** | **(0.4)** | **24.6** | **7.9** | **(127.9)** | **238.8** | **141.4** |

**Note 1G Expenditure and Income Analysed by Nature**

The table below discloses information on the nature of the Council's income and expenditure.

| Restated 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Expenditure** | |
| 227.1 | Employee benefits expenses* | 226.8 |
| 482.5 | Other service expenses | 420.0 |
| 57.0 | Depreciation, amortisation and impairment | 148.0 |
| 54.8 | Loss on disposal of non-current assets | 22.3 |
| 52.4 | Interest payments | 51.2 |
| 10.3 | Levies | 10.4 |
| **884.1** | | **878.7** |
| | | |
| | **Income** | |
| (246.3) | Fees and charges and other service income | (262.2) |
| (170.0) | Income from Council tax and Business Rates | (174.3) |
| (363.6) | Government grants and contributions | (358.2) |
| (15.5) | Gain on disposal of non-current assets | (21.2) |
| (2.2) | Interest and investment income | (3.2) |
| **(797.6)** | | **(819.1)** |
| **86.5** | **(Surplus)/Deficit on Provision of Services** | **59.6** |

* Employee benefits expenses include direct and indirect employee costs, including employer pensions costs.

**Note 1I Prior Period Adjustments**

There are two prior period adjustment notes – Note 1A in relation to internal management restructure and Note 8 in relation to Non-Current Assets. These sets of prior period adjustments have been shown in separate tables for clarity but should be considered together.

**Note 2 Income and Expenditure**

**2A Acquired and Discontinued Operations**

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

**2B Trading Operations**

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

| 2018-2019 | | | 2019-2020 | |
|---|---|---|---|---|
| Turnover | Deficit/ (Surplus) | Trading Operation | Turnover | Deficit/ (Surplus) |
| £m | £m | | £m | £m |
| (1.6) | (0.1) | Markets | (2.0) | 0.4 |
| (5.1) | 0.4 | Cleaning of Buildings | (5.6) | 0.2 |
| (6.3) | 0.2 | Schools and Welfare Catering | (4.5) | 0.5 |
| (0.3) | 0.1 | Civic Centre and Other Catering | (0.3) | 0.1 |
| **(13.3)** | **0.6** | **Total** | **(12.4)** | **1.2** |

## 2C Pooled Budgets

The Council takes part in two pooled budget schemes with Wolverhampton Clinical Commissioning Group (CCG). The first scheme relates to the integrated service for Child Placements with External Agencies for children with social care, education and health needs. The scheme is administered by the Council who incur the expenditure and then receive a contribution from CCG according to a funding formula. Contributions are summarised in the following table.

| 2018-2019 | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|
| Council Contribution £m | CCG Contribution £m | Total Expenditure £m | Scheme | Council Contribution £m | CCG Contribution £m | Total Expenditure £m |
| 2.4 | 1.5 | 3.9 | Child Placements with External Agencies | 2.8 | 1.4 | 4.2 |

The second scheme relates to a pooled budget arrangement with Wolverhampton Clinical Commissioning Group (CCG) entered on 1 April 2015. This is a section 75 (NHS Act 2006) partnership agreement relating to the commissioning of health and social care services under the Better Care Fund (BCF). The BCF has been established by the Government and it is a requirement of the Fund that the CCG and the Council establish a pooled fund for this purpose. The BCF is made up of CCG funding as well as local government grants, including the Improved Better Care Fund (BCF), which was first announced in the 2015 Spending Review and is a direct grant which must be pooled into the local BCF plan. Revenue grants received through the Better Care Fund and Improved Better Care Fund are included within the Council's CIES.

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

| 2018-2019 £m | Better Care Fund | 2019-2020 £m |
|---|---|---|
| | **Expenditure** | |
| 52.2 | Adult Community Services | 56.4 |
| 2.9 | Dementia | 3.9 |
| 10.9 | Mental Health & CAMHS | 14.5 |
| **66.0** | **Total Expenditure** | **74.8** |
| | | |
| | **Gross Funding** | |
| 36.5 | Wolverhampton Clinical Commissioning Group | 45.1 |
| 28.4 | City of Wolverhampton Council | 29.5 |
| **64.9** | **Total Funding** | **74.6** |

| 2018-2019 £m | Better Care Fund | 2019-2020 £m |
|---|---|---|
| **1.1** | **Net Over Spend** | **0.2** |
| | | |
| | **Allocation of Over/(Under) Spend** | |
| 0.8 | Wolverhampton Clinical Commissioning Group | 0.1 |
| 0.3 | City of Wolverhampton Council | 0.1 |
| **1.1** | **Total Allocation** | **0.2** |



### 2D Councillors' Allowances and Expenses

The Council paid £929,000 in Councillors' allowances during 2019-2020 (2018-2019: £923,000).

## 2E Senior Officers' Remuneration

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

| Post Title | | Salary, Fees and Allowances | Contractor Costs | Expenses Allowances | Exit Package | Employers' Pension Contribution | TOTAL REMUNERATION |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ |
| **Chief Executive (Head of Paid Service) [1]** | **2019-2020** | **156,282** | **-** | **-** | **-** | **-** | **156,282** |
| | 2018-2019 | 148,007 | - | - | - | 11,681 | 159,688 |
| **Deputy Chief Executive [2]** | **2019-2020** | **136,384** | **-** | **-** | **-** | **41,114** | **177,498** |
| | 2018-2019 | 131,995 | - | - | - | 37,780 | 169,775 |
| **Director of Pensions [3]** | **2019-2020** | **129,835** | **-** | **-** | **-** | **41,898** | **171,733** |
| | 2018-2019 | 114,455 | - | - | - | 34,531 | 148,986 |
| **Director of Finance (Section 151 Officer) [4]** | **2019-2020** | **108,426** | **-** | **-** | **-** | **34,989** | **143,415** |
| | 2018-2019 | 104,050 | - | - | - | 31,683 | 135,733 |
| **Director of Governance (Monitoring Officer) [5]** | **2019-2020** | **22,817** | **-** | **-** | **-** | **4,353** | **27,170** |
| | 2018-2019 | 111,022 | - | - | - | - | 111,022 |
| **Director of Education [6]** | **2019-2020** | **67,007** | **-** | **-** | **-** | **24,727** | **91,734** |
| | 2018-2019 | 114,360 | - | - | - | 34,823 | 149,183 |
| **Director of Adult Services** | **2019-2020** | **111,940** | **-** | **-** | **-** | **36,123** | **148,063** |
| | 2018-2019 | 107,537 | - | - | - | 32,745 | 140,282 |
| **Director of Children's Services** | **2019-2020** | **111,940** | **-** | **-** | **-** | **36,123** | **148,063** |
| | 2018-2019 | 107,537 | - | - | - | 32,745 | 140,282 |
| **Director of Public Health** | **2019-2020** | **111,940** | **-** | **-** | **-** | **36,123** | **148,063** |
| | 2018-2019 | 107,246 | - | - | - | 32,657 | 139,903 |
| **Director of Regeneration [7]** | **2019-2020** | **108,426** | **-** | **-** | **-** | **34,989** | **143,415** |
| | 2018-2019 | 67,968 | 79,463 | - | - | 20,696 | 168,127 |
| **Director of City Environment** | **2019-2020** | **104,910** | **-** | **-** | **-** | **33,855** | **138,765** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018-2019 | 92,027 | - | - | - | 28,022 | 120,049 |
| **Director of City Housing [8]** | **2019-2020** | **95,866** | **-** | **-** | **-** | **30,936** | **126,802** |
| | 2018-2019 | 100,295 | - | - | - | 30,540 | 130,835 |
| **Director of Communications and External Relations [9]** | **2019-2020** | **95,800** | **-** | **-** | **-** | **30,915** | **126,715** |
| | 2018-2019 | 77,476 | - | - | - | 23,591 | 101,067 |
| **Director of Black Country Transport [10]** | **2019-2020** | **104,910** | **-** | **-** | **-** | **33,855** | **138,765** |
| | 2018-2019 | 95,015 | - | - | - | 28,932 | 123,947 |
| **Director of Strategy [11]** | **2019-2020** | **79,328** | **-** | **-** | **-** | **25,599** | **104,927** |
| | 2018-2019 | - | - | - | - | - | - |
| **Assistant Director of Investments and Finance [3]** | **2019-2020** | **115,401** | **-** | **-** | **-** | **37,240** | **152,641** |
| | 2018-2019 | 100,280 | - | - | - | 30,255 | 130,535 |
| **Chief Accountant** | **2019-2020** | **70,692** | **-** | **-** | **-** | **22,812** | **93,504** |
| | 2018-2019 | 64,333 | - | - | - | 19,590 | 83,923 |
| **Head of Legal Services (Deputy Monitoring Officer) [12]** | **2019-2020** | **71,737** | **-** | **-** | **-** | **23,296** | **95,033** |
| | 2018-2019 | 63,854 | - | - | - | 19,444 | 83,298 |
| **Strategic Director of Place [13]** | **2019-2020** | **-** | **-** | **-** | **-** | **-** | **-** |
| | 2018-2019 | 41,448 | 88,725 | - | - | - | 130,173 |

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

| 2019-2020 | | | | | |
|---|---|---|---|---|---|
| | Number of Employees | | | | |
| Remuneration Band | Schools | Pension Fund | Rest of Council | Total Number of Employees in Band | Employees Receiving Termination Packages (included in total) |
| £50,000 - £54,999 | 36 | 1 | 82 | 119 | 7 |
| £55,000 - £59,999 | 20 | - | 26 | 46 | 2 |
| £60,000 - £64,999 | 17 | 2 | 12 | 31 | - |
| £65,000 - £69,999 | 13 | 1 | 13 | 27 | 1 |
| £70,000 - £74,999 | 16 | 1 | 10 | 27 | - |
| £75,000 - £79,999 | 6 | - | - | 6 | - |
| £80,000 - £84,999 | 3 | - | 1 | 4 | - |
| £85,000 - £89,999 | 2 | - | - | 2 | - |
| £90,000 - £94,999 | 1 | - | - | 1 | - |
| £95,000 - £99,999 | 1 | - | - | 1 | - |
| £100,000 - £104,999 | - | - | - | - | - |
| £105,000 - £109,999 | 1 | - | - | 1 | - |
| £110,000 - £114,999 | - | - | 1 | 1 | 1 |
| £115,000 - £119,999 | - | - | 1 | 1 | 1 |
| **Total** | **116** | **5** | **146** | **267** | **12** |

| 2018-2019 | | | | | |
|---|---|---|---|---|---|
| | Number of Employees | | | | |
| Remuneration Band | Schools | Pension Fund | Rest of Council | Total Number of Employees in Band | Employees Receiving Termination Packages (included in total) |
| £50,000 - £54,999 | 29 | 3 | 75 | 107 | 4 |
| £55,000 - £59,999 | 26 | - | 26 | 52 | 4 |
| £60,000 - £64,999 | 9 | 2 | 27 | 38 | 4 |
| £65,000 - £69,999 | 24 | 1 | 10 | 35 | 1 |
| £70,000 - £74,999 | 8 | - | 2 | 10 | 1 |
| £75,000 - £79,999 | 4 | - | 2 | 6 | 1 |
| £80,000 - £84,999 | 4 | - | - | 4 | - |
| £85,000 - £89,999 | 1 | - | - | 1 | - |
| £90,000 - £94,999 | 1 | - | - | 1 | - |
| £95,000 - £99,999 | 1 | - | 1 | 2 | - |
| £100,000 - £104,999 | - | - | 1 | 1 | 1 |
| £105,000 - £109,999 | 1 | - | - | 1 | - |
| **Total** | **108** | **6** | **144** | **258** | **16** |

**Note 1:** The Managing Director was redesignated Chief Executive with effect from 1 September 2019. The Managing Director post was held by two individuals during 2018-2019. The current post holder, with an annualised salary of £152,500 for 2018-2019, was appointed from the Strategic Director of Place post with effect from 17 July 2018. The previous post holder held the post, with an annualised salary of £153,449 for 2018-2019, until 30 June 2018. Between April 2019 and March 2020 pay costs of £6,810, included in the table against the Chief Executive, were funded by West Midlands Pension Fund, and not from the City of Wolverhampton Council General Fund. This is for the Chief Executive's work as Chief Executive of the West Midlands Pension Fund.

**Note 2:** The Deputy Managing Director was redesignated Deputy Chief Executive with effect from 1 September 2019. The Strategic Director of People assumed the role of Deputy Managing Director from 1 October 2018 with no changes to remuneration. The post holder used the title of Strategic Director of People or Deputy Managing Director as necessary depending on the circumstances and the audience.

**Note 3:** The pay costs of these officers were fully funded by West Midlands Pension Fund, and not by the City of Wolverhampton Council. Following a Senior Management Restructure at the West Midlands Pension Fund the posts of these officers were regraded effective April 2019.

**Note 4:** Between April 2019 and March 2020 pay costs of £6,010, included in the table against the Director of Finance, were funded by West Midlands Pension Fund, and not from the City of Wolverhampton Council General Fund.

**Note 5:** The Director of Governance post became vacant on 30 April 2019 and had an annualised salary of £111,940 for 2019-2020. The current Director of Governance took up post on 10 February 2020 and had an annualised salary of £95,800 for 2019-2020.

**Note 6:** The Director of Education post became vacant on 30 October 2019 and had an annualised salary of £115,401 for 2019-2020. The post was held vacant pending the completion of the service review.

**Note 7:** The Director of Regeneration post was created on 1 April 2018 and was held by two individuals during 2018-2019. The current post holder, with an annualised salary of £104,050 for 2018-2019, was appointed on 6 August 2018. The previous post holder held the post between 1 April 2018 and 30 September 2018 on an interim basis and the costs shown are the full fees paid to the interim management agency and not the payment to the post holder.

**Note 8:** The Director of City Housing post became vacant on 28 February 2020 and had an annualised salary of £104,910 for 2019-2020. The post remains vacant.

**Note 9:** The Director of Communications and External Relations post was redesignated from the Head of Communications post with effect from 1 April 2019.

**Note 10:** The Director of Black Country Transport post holder is required to report directly to the Chief Executive.

**Note 11:** The Director of Strategy post was redesignated from the Head of Strategy post and the Head of Strategy post holder was assimilated into the role of Director of Strategy with effect from 6 November 2019 and had an annualised salary of £95,800 for 2019-2020.

**Note 12:** The Head of Legal Services post holder was appointed to the post of Chief Legal Officer and Monitoring Officer on an interim basis during 2019-2020 until 9 February 2020 when the current Director of Governance was appointed. The post of Head of Legal Services had an annualised salary of £65,338 for 2019-2020.

**Note 13:** The Strategic Director of Place was held by two individuals during 2018-2019. The last post holder was appointed on 24 September 2018 and was held on an interim basis until 31 March 2019; the costs shown are the full fees paid to the interim management agency and not the payment to the post holder. The previous post holder, with an annualised salary of £138,910 for 2018-2019, was appointed to the Managing Director post with effect from 17 July 2018. The post was deleted on 31 March 2019 following a review of the Senior Management Structure.

## 2F Exit Packages

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

| 2018-2019 | | | | | | | 2019-2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Compulsory | | Other | | Total | | Value of Individual Package | Compulsory | | Other | | Total | |
| Number | £m | Number | £m | Number | £m | | Number | £m | Number | £m | Number | £m |
| - | - | 1.0 | 0.2 | 1.0 | 0.2 | £200,001 to £250,000 | - | - | - | - | - | - |
| - | - | 1.0 | 0.2 | 1.0 | 0.2 | £150,001 to £200,000 | - | - | 3.0 | 0.5 | 3.0 | 0.5 |
| 2.0 | 0.3 | 2.0 | 0.2 | 4.0 | 0.5 | £100,001 to £150,000 | 3.0 | 0.3 | 3.0 | 0.4 | 6.0 | 0.7 |
| - | - | 2.0 | 0.2 | 2.0 | 0.2 | £80,001 to £100,000 | 1.0 | 0.1 | 2.0 | 0.2 | 3.0 | 0.3 |
| 2.0 | 0.1 | 5.0 | 0.4 | 7.0 | 0.5 | £60,001 to £80,000 | 3.0 | 0.2 | 2.0 | 0.1 | 5.0 | 0.3 |
| 2.0 | 0.1 | 10.0 | 0.5 | 12.0 | 0.6 | £40,001 to £60,000 | 6.0 | 0.3 | 4.0 | 0.2 | 10.0 | 0.5 |
| 4.0 | 0.1 | 22.0 | 0.6 | 26.0 | 0.7 | £20,001 to £40,000 | 9.0 | 0.2 | 14.0 | 0.4 | 23.0 | 0.6 |
| 22.0 | 0.1 | 76.0 | 0.7 | 98.0 | 0.8 | Less than £20,000 | 55.0 | 0.4 | 55.0 | 0.5 | 110.0 | 0.9 |
| **32.0** | **0.7** | **119.0** | **3.0** | **151.0** | **3.7** | **Total** | **77.0** | **1.5** | **83.0** | **2.3** | **160.0** | **3.8** |

## 2G Amounts Payable to the Auditors

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

| 2018-2019 Restated £m | Description | 2019-2020 £m |
|---|---|---|
| 0.158 | External Audit (Council) | 0.170 |
| 0.023 | Certification of Grant Claims and Returns | 0.021 |
| 0.047 | Additional Work (*) | 0.051 |
| **0.228** | **Total** | **0.242** |

* The fee payable to Grant Thornton UK LLP for additional work relates to:

- WV Living Audit Fee £22,500 (£20,000 2018-2019)
- Wolverhampton Homes Audit Fee £28,285 (£27,000 2018-2019)

**2H Grants**

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Credited to Net Cost of Services** | |
| (65.1) | Dedicated Schools Grant - Schools Block | (64.1) |
| (43.5) | Mandatory Rent Allowance | (37.3) |
| (43.7) | Mandatory Rent Rebates Subsidy | (36.9) |
| (28.9) | Dedicated Schools Grant - High Needs Block | (31.0) |
| (20.8) | Public Health Grant | (20.2) |
| (18.2) | Dedicated Schools Block - Early Years Block | (18.0) |
| (9.2) | LA Private Finance Initiative Revenue Schools (PFI) | (9.2) |
| (8.5) | Pupil Premium | (8.4) |
| (2.0) | Dedicated Schools Grant - Central Services Block | (2.0) |
| - | WMCA AEB Funding (Adult Education) | (1.9) |
| (2.0) | Housing & Council Tax Benefit Administration | (1.7) |
| - | Teachers' Pension Employer Contributions Grant | (1.7) |
| (2.3) | HeadStart Wolverhampton | (1.6) |
| (1.8) | 6th Form Funding | (1.4) |
| (3.6) | Further Education | (1.3) |
| (1.5) | Universal Infant Free School Meals | (1.2) |

| | | |
|---|---|---|
| (1.0) | Independent Living Fund Grant | (0.9) |
| - | Teachers Pay Grant | (0.9) |
| - | Leisure PFI | (0.8) |
| (1.4) | Impact ESF | (0.8) |
| (1.0) | Discretionary Rent Allowances | (0.8) |
| - | Flexible Homelessness Support Grant | (0.8) |
| (1.8) | Troubled Families Grant | (0.7) |
| (0.8) | Primary PE and Sport Premium | (0.7) |
| (0.2) | Syrian Resettlement | (0.6) |
| (0.4) | YOT - Main Grant | (0.5) |
| (0.4) | Asylum Seekers | (0.5) |
| - | Early Outcomes Fund | (0.3) |
| (0.3) | FSM Supplementary | (0.3) |
| (0.1) | CMF - Rough Sleeping Initiative | (0.3) |
| - | General Election | (0.3) |
| - | Levy Account Surplus Grant | (0.3) |
| (0.4) | Schools Music Service | (0.4) |
| - | AIM for GOLD | (0.4) |
| (0.1) | 16-18 Bursary Fund | (0.1) |
| (1.4) | Winter Pressures Grant | - |
| (1.1) | Business Rates Reconciliation Payment | (0.7) |
| (9.5) | Other Grants | (14.8) |
| **(271.0)** | **Total Credited to Net Cost of Services** | **(263.5)** |
| | **Credited to Taxation and Non-Specific Grant Income** | |
| | | |
| | **Non-Ring-Fenced Government Grants** | |
| (34.3) | Local Business Rates Top Up Grant | (26.2) |
| (6.5) | DCLG – Improved Better Care Fund | (11.0) |

| | | |
|---|---|---|
| (8.2) | Business Rates Autumn Statement Compensation | (10.7) |
| (0.9) | DCLG – Social Care Grant (Adults and Childrens) | (3.7) |
| (2.7) | New Homes Bonus (including adjustment grant) | (2.1) |
| (3.9) | DCLG – Additional Improved Better Care Fund | (1.9) |
| **(56.5)** | **Total of Non-Ring-Fenced Government Grants** | **(55.6)** |
| | | |
| | **Capital Grants and Contributions** | |
| (6.6) | Land Property Investment Fund | (6.7) |
| (0.2) | Local Growth Fund i54 Western Extension | (4.5) |
| (3.3) | Disabled Facilities Grant | (3.1) |
| (6.7) | Schools Basic Needs Grant | (1.9) |
| - | S31 Transport Highway Maintenance Fund | (1.8) |
| - | S31 Transport Integrated Transport Block | (1.4) |
| (2.1) | Schools Condition Allocation | (1.2) |
| (0.6) | Devolved Formula Funding | (1.0) |
| (1.4) | Local Growth Fund - Access to Growth | (0.9) |
| (0.3) | SEND Special Provision Capital Fund | (0.5) |
| (0.7) | ERDF Black Country Gold | - |
| (4.5) | Section 31 Grant - Department of Transport | - |
| (1.2) | Homes England Development Grant | - |
| (0.4) | ERDF Blue Network | - |
| (0.3) | Care and Support specialised Housing (CASSH) II | - |
| (0.3) | ERDF Bilston Public Open Space | - |
| (0.2) | Prevention of Repossession Grant | - |
| (0.1) | HM Challenge Fund (Network Renewal) | - |
| (8.4) | Other Grants and Contributions | (15.7) |
| **(37.3)** | **Total of Capital Grants and Contributions** | **(38.7)** |
| **(364.8)** | **Total Grants Credited to the CIES** | **(357.8)** |

## 2I Dedicated Schools Grant

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

| 2018-2019 | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|
| Central Expenditure | Individual Schools Budget | Total | | Central Expenditure | Individual Schools Budget | Total |
| £m | £m | £m | | £m | £m | £m |
| (13.5) | (224.8) | (238.3) | Final DSG for the year before academy recoupment | (12.9) | (234.5) | (247.4) |
| | 122.6 | 122.6 | Academy figure recouped | - | 132.3 | 132.3 |
| **(13.5)** | **(102.2)** | **(115.7)** | **Total DSG after academy recoupment for the year** | **(12.9)** | **(102.2)** | **(115.1)** |
| | | | | | | |
| 1.8 | (1.8) | - | Brought forward from previous year | (0.6) | (2.8) | (3.4) |
| - | - | - | Carry-forward to following year agreed in advance | - | - | - |
| **(11.7)** | **(104.0)** | **(115.7)** | **Agreed initial budgeted distribution in the year** | **(13.5)** | **(105.0)** | **(118.5)** |
| | | | | | | |
| **(11.7)** | **(104.0)** | **(115.7)** | **Final budgeted distribution for the year** | **(13.5)** | **(105.0)** | **(118.5)** |
| | | | | | | |
| 11.1 | - | 11.1 | Less actual central expenditure | 12.9 | - | 12.9 |
| - | 101.2 | 101.2 | Less actual ISB deployed to schools | - | 103.5 | 103.5 |
| **(0.6)** | **(2.8)** | **(3.4)** | **(Under) Overspend carried forward to following year** | **(0.6)** | **(1.5)** | **(2.1)** |

**Note 2J Exceptional Items**

None.

**Note 2K Events after the Reporting Period**

In March 2020, the World Health Organisation categorised Covid-19 as a global pandemic, this was following by Government instituting a national lockdown on 23 March 2020. Wolverhampton responded swiftly and implemented urgent crisis response and business continuity plans. In response to the pandemic, the Council is having to make a number of decisions which have significant financial implications in order to support its resident, as well as complying with Government's requirements and suspending service that are a source of income. In addition, the delivery of a number of planned Budget Reduction and Income Generation targets are at risk because resources that would ordinarily have been focused on transformation programmes have been redirected to enable the Council to respond to the crisis.



The pandemic has had and will continue to have a significant financial impact on the Council. The Council anticipates a significant reduction in Collection Fund income collected in 2020-2021 and over the medium term. In addition, income from fees and charges is likely to be adversely affected and costs are likely to increase, especially in the care sector.

Government have announced and continue to announce grant funding to help address the pressures facing councils in their response to the pandemic. Whilst it is anticipated that these grants are likely to be sufficient to cover the immediate cost pressures, further funding is required in order to meet the full costs of the pandemic over the medium term.

Despite this uncertain position, the Council is considering strategies for managing these potential pressures including implementation of further budget reduction and income generation proposals and investing in recovery. The Council will continue to lobby government to be fully reimbursed for all cost pressures arising from the pandemic. However, due to the level of uncertainty concerning the virus, and the absence of a firm funding commitment from Government it is not possible to make a reliable estimate of the impact this may have on the Council at this time.

*Material valuation uncertainty due to Novel Coronavirus (Covid–19)*

The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in many sectors. As at the valuation date, our valuers consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of

circumstances on which to base judgement. Their valuations are therefore reported on the basis of “material valuation uncertainty”’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, the Council will be keeping the valuation of the portfolio under frequent review.

*Birmingham Airport*

Together, the 7 West Midland Authorities own 49% of Birmingham Airport Holdings Limited (“BAHL”), and vote in one block at meetings. The Council holds 4.7% of BAHL’s ordinary shares and 9.58% of the preference shares of the company, with a reported fair value of £14.5 million as at 31 March 2020.

Subsequent to the balance sheet date, the Covid-19 pandemic and continued related Government restrictions on travel have had a significant impact on BAHL’s trading. BAHL have proactively reduced cashflows, and therefore still retains a strong liquidity position.

Going forward, BAHL forecasts to retain a satisfactory cash balance, but will not comply with the June 2021 covenants relating to the financing arrangements, unless passenger volumes and revenues recover quickly. The impact of the Coronavirus pandemic on BHL’s ability to meet its covenant tests and to take corrective measures should it not be able to do so is a material uncertainty for BHL that may cast significant doubt on its ability to continue as a going concern.

BAHL shareholders, including the 7 West Midland Authorities collectively, have stated their intention to engage in further discussion should tangible support be required. Such corrective action could have a significant impact on the valuation of the Authority’s investment in BAHL.

## Note 3 Other Operating Expenditure

| Restated 2018-2019 Gross Expenditure £m | Restated 2018-2019 Gross Income £m | Restated 2018-2019 Net Expenditure £m | | 2019-2020 Gross Expenditure £m | 2019-2020 Gross Income £m | 2019-2020 Net Expenditure £m |
|---|---|---|---|---|---|---|
| 10.3 | - | 10.3 | Levies | 10.4 | - | 10.4 |
| 2.2 | - | 2.2 | Payments to the Housing Capital Receipts Pool | 2.2 | - | 2.2 |
| 56.5 | (15.5) | 41.0 | Losses/(gains) on the Disposal of Non-Current Assets | 22.2 | (21.2) | 1.0 |
| **69.0** | **(15.5)** | **53.5** | | **34.8** | **(21.2)** | **13.6** |

## Note 4 Financing and Investment Income and Expenditure

| 2018-2019 Gross Expenditure £m | 2018-2019 Gross Income £m | 2018-2019 Net Expenditure £m | | 2019-2020 Gross Expenditure £m | 2019-2020 Gross Income £m | 2019-2020 Net Expenditure £m |
|---|---|---|---|---|---|---|
| 0.4 | - | 0.4 | External Trading Organisations | 0.7 | - | 0.7 |
| 37.0 | - | 37.0 | Interest Payable | 37.2 | - | 37.2 |
| 15.4 | - | 15.4 | Net Interest Expense-Pensions | 14.0 | - | 14.0 |
| - | (0.9) | (0.9) | Interest Receivable | - | (1.9) | (1.9) |
| 1.8 | - | 1.8 | Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value | 1.1 | (0.5) | 0.6 |
| | (1.3) | (1.3) | Other Investment Income | - | (1.3) | (1.3) |
| **54.5** | **(2.2)** | **52.3** | **Total** | **53.0** | **(3.7)** | **49.3** |

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

| 2018-2019 Gross Expenditure £m | 2018-2019 Gross Income £m | 2018-2019 Net Expenditure £m | | 2019-2020 Gross Expenditure £m | 2019-2020 Gross Income £m | 2019-2020 Net Expenditure £m |
|---|---|---|---|---|---|---|
| - | (72.8) | (72.8) | National Non-Domestic Rates | - | (72.9) | (72.9) |
| - | (97.2) | (97.2) | Council tax | - | (101.4) | (101.4) |
| - | (56.5) | (56.5) | Non ring-fenced Revenue Grants Receivable | - | (55.6) | (55.6) |
| - | (37.2) | (37.2) | Capital Grants Receivable | - | (38.9) | (38.9) |
| **-** | **(263.7)** | **(263.7)** | **Taxation and Non-Specific Grant Income and Expenditure** | **-** | **(268.8)** | **(268.8)** |

## Note 6 Current Receivables and Payables

The tables below show amounts owed to the Council (receivables), and amounts owed by the Council (payables) at the end of the year, split by type of organisation. Where 2018-2019 has been restated this is because the Council updated the way it presented this note in 2019-2020, so 2018-2019 has been restated for comparison.

### 6A Current Receivables

| Restated 31 March 2019 Council £m | Restated 31 March 2019 *Group £m* | Type of Organisation | 31 March 2020 Council £m | 31 March 2020 *Group £m* |
|---|---|---|---|---|
| 6.6 | *6.6* | Central Government Bodies | 9.3 | *9.3* |
| 11.0 | *11.0* | Other Local Authorities | 7.6 | *7.6* |
| 7.2 | *7.2* | NHS Bodies | 8.4 | *8.4* |
| 56.0 | *50.1* | Bodies External to General Government | 85.3 | *56.7* |
| **80.8** | ***74.9*** | **Total** | **110.6** | ***82.0*** |

## 6B Current Receivables for Local Taxation

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

### Council Tax

| 31 March 2019 Council £m | Type of Organisation | 31 March 2020 Council £m |
|---|---|---|
| 4.3 | Less than one year | 4.8 |
| 1.4 | 1-2 years | 1.3 |
| - | 2-6 years | - |
| - | More than 6 years | - |
| **5.7** | **Total** | **6.1** |

**Non-Domestic Rates**

| 31 March 2019 Council £m | Type of Organisation | 31 March 2020 Council £m |
|---|---|---|
| 0.4 | Less than one year | 0.7 |
| - | 1-2 years | - |
| - | 2-6 years | - |
| - | More than 6 years | - |
| **0.4** | **Total** | **0.7** |



**6C Current Payables**

| Restated 31 March 2019 | | Type of Organisation | 31 March 2020 | |
|---|---|---|---|---|
| Council £m | *Group £m* | | Council £m | *Group £m* |
| (31.7) | *(33.3)* | Central Government Bodies | (49.9) | *(52.1)* |
| (1.6) | *(1.6)* | Other Local Authorities | (3.1) | *(3.1)* |
| (0.2) | *(0.2)* | NHS Bodies | (1.7) | *(1.7)* |
| (48.4) | *(49.3)* | Bodies External to General Government | (49.9) | *(47.0)* |
| **(81.9)** | ***(84.4)*** | **Total** | **(104.6)** | ***(103.9)*** |

## 6D Inventories

| | Property constructed for sale | |
|---|---|---|
| | **2019-2020 £m** | ***2018-2019 £m*** |
| Balance outstanding at start of year | 7.9 | *2.2* |
| Purchases | 27.3 | *8.0* |
| Recognised as an expense in the year | (8.6) | *(2.0)* |
| Transferred to investment property | (0.2) | - |
| **Balance outstanding at year end** | **26.4** | ***8.2*** |

## Note 7 Provisions, Contingent Liabilities and Guarantees - 7A Provisions

| Balance at 31 March 2019 £m | Provision Name | Provision Details | Amounts Used in 2019-2020 £m | Contribution to/from Provisions 2019-2020 £m | Balance at 31 March 2020 £m |
|---|---|---|---|---|---|
| (1.2) | Capitalisation Risks | This provision is in respect of potential claims under equal pay legislation. It is currently uncertain when payments might need to be made, and the value of any such payments. | | 0.8 | (0.4) |
| (2.3) | Insurance | The Council self-insures risks to property and assets up to a total aggregate limit of £1.0 million and its liability exposures up to a limit of £250,000 on any one occurrence above which limits the external insurance cover operates. The insurance provision of £2.3 million is in respect of the outstanding claims under the self-insurance programme covering the current and past years. | | | (2.3) |
| (0.3) | Termination Benefits | During 2019-2020, the Council continued to accept applications for voluntary redundancy. As a result of this initiative, there were a number of employees and former employees to whom termination benefits were due, but had not yet been made, at the end of the year. | 0.3 | (0.4) | (0.4) |
| (0.1) | Midlands Housing Consortium (MHC) | MHC was previously a member of the West Midlands Pension Fund. It paid a lump sum to the Council to support pension payments to fund members. This provision will reduce gradually over time as pension payments are made. | - | - | - |
| - | Housing Revenue Account | There are three separate provisions: for legal disrepair claims, for tenant management organisation expenditure and for rent bonds. | - | - | - |
| (5.4) | Outstanding NNDR Appeals | The Collection Fund account requires a provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2020. | 0.9 | (2.0) | (6.5) |
| (0.1) | Court Costs | Court costs relating to a case have now been settled and a provision is no longer required. | 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. | | | (0.1) |
| - | BCLEP EZ provision for Wolverhampton (North) | Provision for the retention and distribution of the uplift in business rates for City of Wolverhampton Enterprise Zone sites in the Black country area. | - | (0.5) | (0.5) |
| **(9.5)** | | **Total** | **1.3** | **(2.1)** | **(10.2)** |

**7B Contingent Liabilities**

At 31 March 2020, the Council had the following contingent liabilities:

• The Council entered into a waste disposal contract on 8 February 1996. Under the contract, the waste disposal contractor has constructed a waste energy plant at an estimated cost of £26.6 million and the plant became operational in February 1998. If the contract is terminated by the Council for any reason, the Council becomes liable to pay to the contractor a sum, (the termination sum), equal to 90% of £26.6 million, written down to zero on a straight-line depreciation basis over 25 years commencing from the date the plant became operational. The unexpired value of the termination sum at 31 March 2020 is £3.1 million (31 March 2019: £4.1 million).

• A contingent liability exists for the costs of Equal Pay compensation. The Council has established a provision for £300,000 (31 March 2019: £1.1 million). The potential costs of any further cases not addressed by this provision cannot be reliably quantified at this stage.

• There are several instances where the Council has acquired title to assets of land and buildings due to the use of compulsory purchase orders or an interest in land and buildings subject to blight notices. In these situations, there has been no transfer of economic benefits due to difficulties in either establishing the original owner or in reaching an agreement to the level of compensation to be transferred. The existence of a recognisable liability can only be confirmed at the point that the owner comes forward to claim reimbursement or the formal acknowledgment of blight has been established. The total value of these cases as at 31 March 2020 is estimated at £487,000 (31 March 2019: £180,000).

• During 2019-2020, the Council continued to accept applications for voluntary redundancy. There were a number of applications for voluntary redundancy that were approved prior to the balance sheet date for payment during 2019-2020 for which a provision of £386,000 (31 March 2019: £344,000) has been raised. There are, however, a number of applications for voluntary redundancy in progress which had not received sufficient approvals as at the Balance Sheet date to make it reasonably certain that a redundancy would ultimately result. It is not possible to place a reliable estimate on the number of such applications that will ultimately result in redundancy, and therefore the value of any resulting liability.

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

• The Council pays a unitary charge as part of the Leisure PFI. A qualifying change in law has arisen as a result of the closure of the centre due to the Covid-19 pandemic. Under the terms of the contract the Council is liable to fund the cost of loss of income and any increased charges arising when the centre reopens (10 August 2020). These costs will be agreed in a deed of variation, which is currently being negotiated and will include financial issues, opening hours, mobilisation plans, new performance deductions etc. There will be payment for the closure period and further payments during the resumption phase. All payments will be based on actual costs through a 'true up' mechanism. These costs are being closely monitored and reported against the Covid-19 Emergency Grant Funding received from Central Government.

### 7C Contingent Assets

None.

### 7D Guarantees

The Council has provided guarantees to twenty-three organisations at the point they were admitted to West Midlands Pension Fund, to fund any potential pension liability. As at the last triennial valuation (31st March 2019) none of these organisations had a pension liability in excess of £100,000 (which the Council considers to be material for these purposes).

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

During 2018-2019 the Council provided a new guarantee in respect to Walsall Metropolitan Borough Council for the University of Wolverhampton. The guarantee relates to grant funding through the Black Country Local Enterprise Partnerships (LEP) – Growth Deal totalling £13.6 million. The Council has considered the probability of the guarantee being called and the likely amount payable under the guarantee. The probability of the guarantee being called is not considered to be significant and as a result the fair value is not considered material. Therefore, the guarantee is not recognised in the Comprehensive Income and Expenditure Statement.

### 7E Financial Guarantee Contract

The Council has provided a guarantee to the City of Wolverhampton College in respect of bank loans. In accordance with IFRS9, the fair value of the guarantee has been estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee. As a result, a provision of £0.2 million has been made.

## Note 8 Non-Current Assets

## Non-Current Assets 2019-2020

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, | Infrastructure Assets | Community Assets | Surplus Assets | Property Plant and Equipment Subtotal | Investment Properties | Intangible Assets | Heritage Assets | Assets Held for Sale | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 31 March 2019 | | | | | | | | | | | | |
| - As previously reported | 751.4 | 464.0 | 91.8 | 315.1 | 16.6 | 18.1 | **1,657.0** | 36.0 | 15.0 | 11.6 | - | **1,719.6** |
| - Prior year adjustment | 69.9 | 7.5 | - | - | - | - | **77.4** | - | - | - | - | **77.4** |
| At 31 March 2019 - As restated | **821.3** | **471.5** | **91.8** | **315.1** | **16.6** | **18.1** | **1734.4** | **36.0** | **15.0** | **11.6** | **-** | **1,797.0** |
| | | | | | | | | | | | | |
| Additions | 58.4 | 19.5 | 4.6 | 7.0 | 0.7 | - | **90.2** | 1.1 | 1.6 | - | - | **92.9** |
| Disposals | (9.9) | (3.6) | - | - | (0.9) | (7.1) | **(21.5)** | (0.9) | - | - | - | **(22.4)** |
| Revaluations / Fair Value Gains/(Losses) | | | | | | | **-** | | | | | **-** |
| - Recognised in revaluation reserve | - | (10.6) | - | - | 0.2 | (1.4) | **(11.8)** | (0.8) | - | - | - | **(12.6)** |
| - Recognised in surplus/(deficit) on provision of services | (4.1) | (44.5) | - | - | - | (0.8) | **(86.4)** | (1.6) | - | - | - | **(88.0)** |
| Impairments | - | - | - | - | - | - | **-** | - | - | - | - | **-** |
| Other Changes - Gross Value | - | 4.7 | - | - | (4.0) | (0.7) | **-** | - | - | - | - | **-** |
| **Gross Value as at 31 March 2020** | **828.7** | **437.0** | **96.4** | **322.1** | **12.6** | **8.1** | **1,704.8** | **33.8** | **16.6** | **11.6** | **-** | **1,766.9** |
| | | | | | | | | | | | | |
| **Accumulated Depreciation/Impairment** | | | | | | | | | | | | |
| - At 31 March 2019 | - | 9.4 | 77.9 | 179.1 | 0.8 | 1.6 | **268.8** | 1.7 | 9.7 | - | - | **280.2** |
| | | | | | | | | | | | | |
| Disposals | - | (0.2) | - | - | - | - | **(0.2)** | - | - | - | - | **(0.2)** |
| Depreciation/amortisation | 17.9 | 10.6 | 3.7 | 10.8 | - | 0.1 | **43.1** | - | 1.8 | - | - | **44.9** |
| Depreciation writeback on revaluation | | | | | | | | | | | | |
| - Recognised in the Revaluation Reserve | - | (6.4) | - | - | - | (0.1) | **(6.5)** | (0.1) | - | - | - | **(6.6)** |
| - Recognised in the Surplus/Deficit on the Provision of Services | (17.9) | (5.8) | - | - | - | - | **(23.7)** | (1.6) | - | - | - | **(25.3)** |
| Other Changes | - | - | - | - | - | - | **-** | - | - | - | - | **-** |
| **Accumulated Depreciation/Impairment at 31 March 2020** | **-** | **7.6** | **81.6** | **189.9** | **0.8** | **1.6** | **281.5** | **-** | **11.5** | **-** | **-** | **293.0** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2020** | **828.7** | **429.4** | **14.8** | **132.2** | **11.8** | **6.5** | **1,423.4** | **33.8** | **5.1** | **11.6** | **-** | **1,473.9** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2019** | **821.3** | **462.2** | **13.9** | **136.0** | **15.8** | **16.5** | **1,465.6** | **34.3** | **5.3** | **11.6** | **-** | **1,516.9** |

## Non-Current Assets 2018-2019 (Restated)

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture | Infrastructure Assets | Community Assets | Surplus Assets | Property Plant and Equipment Subtotal | Investment Properties | Intangible Assets | Heritage Assets | Assets Held for Sale | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At 31 March 2018 | | | | | | | | | | | | |
| - As previously reported | 737.6 | 531.6 | 85.4 | 305.9 | 15.8 | 18.1 | 1694.4 | 37.9 | 13.0 | 11.6 | - | 1756.9 |
| - Prior year adjustment | 85.3 | - | - | - | - | - | 85.3 | - | - | - | - | 85.3 |
| - At 31 March 2018 As restated | **822.9** | **531.6** | **85.4** | **305.9** | **15.8** | **18.1** | **1,779.7** | **37.9** | **13.0** | **11.6** | **-** | **1,842.2** |
| | | | | | | | | | | | | |
| Additions | 42.8 | 27.9 | 6.3 | 9.2 | 0.5 | - | **86.7** | 0.9 | 2.0 | - | - | **89.6** |
| Disposals | (11.6) | (43.6) | - | - | - | - | **(55.2)** | (2.2) | - | - | - | **(57.4)** |
| Revaluations / Fair Value Gains/(Losses) | | | | | | | **-** | | | | | **-** |
| - Recognised in revaluation reserve | - | (13.5) | - | - | 0.3 | - | **(13.2)** | (1.5) | - | - | - | **(14.7)** |
| - Recognised in surplus/(deficit) on provision of services | (32.8) | (29.8) | 0.1 | - | - | - | **(62.5)** | - | - | - | - | **(62.5)** |
| Impairments | - | (0.3) | - | - | - | - | **(0.3)** | - | - | - | - | **(0.3)** |
| Other Changes - Gross Value | - | (0.9) | - | - | - | - | **(0.9)** | 0.9 | - | - | - | **-** |
| **Gross Value as at 31 March 2019** | **821.3** | **471.4** | **91.8** | **315.1** | **16.6** | **18.1** | **1,734.4** | **36.0** | **15.0** | **11.6** | **-** | **1,796.9** |
| | | | | | | | | | | | | |
| **Accumulated Depreciation/Impairment** | | | | | | | | | | | | |
| - At 31 March 2018 | **-** | **8.6** | **74.0** | **169.1** | **0.8** | **1.5** | **254.0** | **1.7** | **7.4** | **-** | **-** | **263.0** |
| | | | | | | | | | | | | |
| Disposals | - | (0.7) | - | - | - | - | **(0.7)** | - | - | - | - | **(0.7)** |
| Depreciation/amortisation | 17.5 | 14.0 | 3.9 | 10.0 | - | 0.1 | **45.5** | - | 2.3 | - | - | **47.8** |
| Depreciation writeback on revaluation | | | | | | | **-** | | | | | **-** |
| - Recognised in the Revaluation Reserve | - | (8.6) | - | - | - | - | **(8.6)** | - | - | - | - | **(8.6)** |
| - Recognised in the Surplus/Deficit on the Provision of Services | (17.5) | (4.0) | - | - | - | - | **(21.5)** | - | - | - | - | **(21.5)** |
| Other Changes | - | - | - | - | - | - | **-** | - | - | - | - | **-** |
| **Accumulated Depreciation/Impairment at 31 March 2019** | **-** | **9.3** | **77.9** | **179.1** | **0.8** | **1.6** | **268.7** | **1.7** | **9.7** | **-** | **-** | **280.0** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2019** | **821.3** | **462.1** | **13.9** | **136.0** | **15.8** | **16.5** | **1,465.6** | **34.3** | **5.4** | **11.6** | **-** | **1,516.9** |
| | | | | | | | | | | | | |
| **Net Book Value As at 31 March 2018** | **822.9** | **523.0** | **11.4** | **136.8** | **15.0** | **16.6** | **1,525.7** | **36.2** | **5.6** | **11.6** | **-** | **1,579.2** |

**Asset Disposals**

The total net book value of assets disposed of in year was £22.4 million (2018-2019: £57.4 million). No assets were derecognised in respect of schools that have converted to Academies in 2019-2020 (2018-2019: £41.2 million).

**Depreciation/Amortisation**

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

| | |
|---|---|
| Council Dwellings | Up to 30 years |
| Infrastructure assets | 1-49 years |
| Surplus assets | 1-49 years |
| Other buildings | 1-57 years |
| Plant and equipment | 1-45 years |
| Vehicles | 1-7 years |
| Intangible assets | 1-5 years |

**Revaluations**

The Council has all property, plant and equipment assets required to be valued at current value and with a current Net Book value in excess of £1.0 million valued annually and carries out a rolling programme that ensures the remainder are revalued at least every five years. The Council seeks assurance for the assets not valued that there is no material change to their value. These valuations are accurate as of 31 March 2020. The valuations were carried out by external valuers. The housing stock valuation was carried out by the Jones Lang Lasalle while the other valuations were carried out by Bruton Knowles, registered RICS valuers, using the guidance and methodology set out in the following paragraphs.

The following statement shows the value of assets that have been revalued in the financial years 2015-2016 to 2019-2020.

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Property Plant and Equipment Subtotal | Investment Properties | Intangible Assets | Heritage Assets | Assets Held for Sale | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Carried at Historical Costs** | | **0.5** | **14.8** | **132.2** | **11.8** | **0.4** | **159.8** | **-** | **5.1** | **11.6** | **-** | **176.5** |
| Valued at fair or nominal value as at: | | | - | - | - | | **-** | | | | | - |
| 31st March 2016 | | 0.8 | - | - | - | - | **0.8** | - | | | | 0.8 |
| 31st March 2017 | | 0.1 | - | - | - | 0.1 | **0.1** | - | | | | 0.1 |
| 31st March 2018 | | 10.4 | - | - | - | - | **10.4** | - | | | | 10.4 |
| 31st March 2019 | | 10.5 | - | - | - | 0.1 | **10.6** | - | | | | 10.6 |
| Valued @ 31st March 2020 | 828.7 | 407.1 | - | - | | 5.9 | **1,241.7** | 33.8 | - | - | | 1,275.5 |
| **Total Cost or Valuation** | **828.7** | **429.4** | **14.8** | **132.2** | **11.8** | **6.5** | **1,423.5** | **33.8** | **5.1** | **11.6** | **-** | **1,473.9** |

In 2019-2020, Council Dwellings were fully valued via a beacon valuation approach. This was completed by Jones Lang LaSalle (JLL)..

In addition, a desktop review is carried out by the council's external valuers Bruton Knowles of the remaining assets not revalued in 2019-2020 to test for any material movement in market value.

**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 Assets.

## Basis of Valuation

In accordance with the CIPFA Code of Practice on Local Authority Accounting 2019-2020, infrastructure, community assets, and assets under construction are valued at depreciated historical cost. All other classes of asset are measured at current value. For vehicles, plant, furniture and equipment current value is determined by depreciated historical cost due to the short useful life of these assets. The current value of Council dwellings is measured using existing use value (social housing). For all other asset classes, where there is no market-based evidence of current value, the Council estimates current value using the depreciated replacement cost approach. The following table describes the measurement basis used to determine the gross carrying value of each of the Council's classes of non-current assets.

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

## Inspection

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

**Key Assumptions**

• Planning - Planning consideration is, in the first instance, by reference to the Local Development Framework to ensure the use of the property to be valued is in accordance with the Council's stated policies.

• Ground Conditions - no reference is made to ground conditions unless it is evident upon inspection that a particular property has been affected by exceptional external influences greater than would be anticipated for its locality.

• Contamination - no reference is made to contamination unless, upon inspection, it is evident that a particular property has been affected by external influences greater than would be anticipated for its locality.

**Capital Commitments**

At 31 March 2020, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019-2020 and future years with an estimated total value of £39.6 million (31 March 2019: £60 million). The major commitments are: i9 (£12.9 million), Heath Town Regeneration (£9.6 million), High Rise M&E Infrastructure Refurbishment (£7.3 million), Interchange (£3.4 million) and Civic and Wulfrun Halls (£2.0 million).

**Investment Properties**

During the year, the Council had £3.8 million of income receivable from investment properties (2018-2019: £3.6 million) and spent £595,000 on managing and maintaining those properties (2018-2019: £674,000). There are no restrictions on the Council's ability to realise the value of its investment property, the remittance of income or the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property, or for it to carry out repairs, maintenance or enhancements.

**Impairment**

There were no impairments to non-current assets in 2019-2020.

**Prior Year Adjustment**

During the year a full revaluation the Council's HRA dwellings was carried out with values determined as at 31 March 2020. The council dwellings are fully valued every 5 years in line with the Council's accounting policy.

There was a significant increase in the valuation of Council dwellings for 2019-2020 in comparison to previous financial years. As a result, a full review was undertaken by the external valuers John Lang LaSalle for the prior year's 2018-2019 and 2017-2018.

The review resulted in an increase the in valuation of the Council Dwellings in prior years. As illustrated in the table below, the impact to the valuation of Council dwellings 2017-2018 was £85.3million and £69.9 million in 2018-2019. As the full amount of this revaluation related to prior years this has been treated as a prior period adjustment and has been amended in the years effected.

In addition, there has been a revised valuation for a school due to a computation error which has result in a significant increase in the asset valuation in 2018-2019 of £7.5 million. The computation error was due to the valuer not including the correct floor space for the asset as a result the asset was undervalued. This was subsequently corrected in the asset valuation for 2019-2020.

This is deemed to be material and has been corrected via a prior period adjustment in 2018-2019 the valuation of other Land and Buildings.



| | 2017-2018 | | | | 2018-2019 | | |
|---|---|---|---|---|---|---|---|
| | Originally stated (Council) £m | Restated (Council) £m | Amount of restatement (Council) £m | | Originally stated (Council) £m | Restated (Council) £m | Amount of restatement (Council) £m |
| **Balance Sheet** | | | | | | | |
| ***Property, plant and equipment*** | | | | | | | |
| - Council dwellings | 737.6 | 822.9 | 85.3 | | 751.4 | 821.3 | 69.9 |
| - Other land and buildings | | | | | 454.7 | 462.2 | 7.5 |
| ***Property, plant and equipment sub-total*** | **1,440.4** | **1,525.7** | **85.3** | | **1,387.8** | **1,465.2** | **77.4** |
| | | | | | | | |
| ***Long-Term Assets*** | **1,519.8** | **1,605.1** | **85.3** | | **1,465.1** | **1,542.5** | **77.4** |
| | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***Net Assets*** | **65.8** | **151.1** | **85.3** | | **30.1** | **108.0** | **77.9** |
| | | | | | | | |
| ***Reserves*** | | | | | | | |
| - Capital adjustment account | (438.0) | (523.3) | (85.3) | | (393.2) | (469.3) | (76.2) |
| - Revaluation reserve | | | | | (156.6) | (157.7) | (1.1) |
| ***Unusable Reserves*** | **15.0** | **(70.3)** | **(85.3)** | | **59.5** | **(17.8)** | **(77.3)** |
| ***Total Reserves*** | **(65.8)** | **(151.1)** | **(85.3)** | | **(30.1)** | **(107.6)** | **(77.5)** |
| | | | | | | | |
| **CIES** | | | | | | | |
| - Education and Skills expenditure | | | | | 250.6 | 244.3 | (6.3) |
| - Housing Revenue Account expenditure | (72.0) | (157.3) | (85.3) | | 68.5 | 82.3 | 13.9 |
| ***Net Cost of Services*** | **(150.5)** | **(235.8)** | **(85.3)** | | **237.0** | **244.6** | **7.6** |
| - Increase/(decrease) in Other operating expenditure | | | | | 67.4 | 69.0 | 1.6 |
| ***Deficit on Provision of Services*** | **(27.0)** | **(58.3)** | **(85.3)** | | **77.6** | **86.5** | **8.9** |
| ***Total Comprehensive Income and Expenditure*** | **(84.7)** | **(0.6)** | **(85.3)** | | **35.6** | **45.6** | **10.0** |
| | | | | | | | |
| ***Cash flow statement*** | | | | | | | |
| - Net deficit on the provision of services | | | | | 77.4 | 86.5 | 9.1 |
| - Depreciation, Amortisation and Impairment of Non-Current Assets | | | | | (48.1) | (55.6) | (7.5) |
| - Net Book Value on Disposal of Property, Plant and Equipment, Investment Property and Intangible Assets | | | | | (55.1) | (56.7) | (1.6) |
| - Adjustment for non-cash movements | | | | | (122.0) | (112.9) | 9.1 |
| ***Net cash flows from operating activities*** | | | | | **8.1** | **8.1** | **-** |
| | | | | | | | |
| **Movement in Reserves Statement** | | | | | | | |
| | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ***General Fund*** | | | | | | | |
| - Balance brought forward | | | | | (10.0) | (10.0) | - |
| - Total Comprehensive Income and Expenditure | | | | | 99.0 | 92.7 | (6.3) |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | | | | | (101.8) | (67.9) | 6.5 |
| - Transfer to/from earmarked reserves | | | | | 2.9 | 6.0 | - |
| - Balance carried forward | | | | | (10.0) | (10.0) | - |
| | | | | | | | |
| ***Housing Revenue Account*** | | | | | | | |
| - Balance brought forward | | | | | (7.0) | (7.0) | - |
| - Total Comprehensive Income and Expenditure | | | | | (21.5) | (6.1) | 15.4 |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | | | | | 21.5 | 6.7 | (14.8) |
| - Transfer to/from earmarked reserves | | | | | - | - | - |
| - Balance carried forward | | | | | (7.0) | (6.3) | 0.7 |
| - | | | | | | | |
| ***Usable Reserves*** | | | | | | | |
| - Balance brought forward | | | | | (80.8) | (80.8) | - |
| - Total Comprehensive Income and Expenditure | | | | | 77.5 | 86.6 | 9.1 |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | | | | | (86.4) | (95.3) | (8.9) |
| - (Increase)/decrease for the Year | | | | | - | - | - |
| - Balance carried forward | | | | | (89.6) | (89.8) | (0.2) |
| - | | | | | | | |
| ***Capital Adjustment Account*** | | | | | | | |
| - Balance brought forward | (397.2) | (397.2) | - | | (438.0) | (523.3) | (85.3) |
| - Total Comprehensive Income and Expenditure | - | - | - | | - | - | - |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | (40.8) | (126.1) | (85.3) | | 44.7 | 54.0 | 9.3 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| - (Increase)/decrease for the Year | - | - | - | | - | - | |
| - Balance carried forward | (438.0) | (523.3) | (85.3) | | (393.2) | (469.3) | (76.1) |
| | | | | | | | |
| ***Revaluation Reserve*** | | | | | | | |
| - Balance brought forward | | | | | (177.0) | (177.0) | - |
| - Total Comprehensive Income and Expenditure | | | | | 5.9 | 4.8 | (1.1) |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | | | | | 14.5 | 14.5 | - |
| - (Increase)/decrease for the Year | | | | | - | - | - |
| - Balance Carried Forward | | | | | (156.6) | (157.7) | (1.1) |
| | | | | | | | |
| ***Unusable Reserves*** | | | | | | | |
| - Balance brought forward | | | | | 15.0 | (70.3) | (85.3) |
| - Total Comprehensive Income and Expenditure | | | | | (41.9) | (43.1) | (1.2) |
| - Adjustments between Accounting Basis & Funding Basis under Regulations | | | | | 86.4 | 95.6 | 9.2 |
| - Balance Carried Forward | | | | | 59.6 | (17.8) | (77.4) |



In addition to the notes listed above, other notes affected by these prior period adjustments were the Non-Current Assets note, the Expenditure and Funding Analysis, notes to the CIES and Cash flow statement and the Housing Revenue Account Income and Expenditure Statement and supporting notes.

## Capital Financing Requirement

The Council's capital financing requirement, which represents the underlying need to borrow to pay for past capital expenditure, was £926.2 million at 31 March 2020 (31 March 2019: £893.4 million).

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

(CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| **876.5** | **Opening Capital Financing Requirement** | **893.4** |
| | | |
| | **Capital Investment** | |
| 86.7 | Property, Plant and Equipment | 90.2 |
| 0.9 | Investment Properties | 1.1 |
| 2.0 | Intangible Assets | 1.6 |
| 22.8 | Revenue Expenditure Funded from Capital under Statute | 37.0 |
| 7.0 | WV Living Loans | 26.6 |
| | | |
| | **Sources of Finance** | |
| (10.8) | Capital Receipts | (25.7) |
| (36.2) | Government Grants and other Contributions | (38.0) |
| - | Sums Set Aside from Revenue: | - |
| (18.9) | Direct Revenue Contributions | (19.7) |
| (36.6) | MRP/Loans Fund Principal | (40.3) |
| | | |
| **893.4** | **Closing Capital Financing Requirement** | **926.2** |
| | | |
| | **Explanation of Movements in Year** | |
| 16.8 | Increase in underlying need to borrow (unsupported by government financial assistance) | 32.7 |
| - | Assets acquired under finance leases | - |
| 0.1 | Assets acquired under PFI contracts | 0.1 |
| | | |
| **16.9** | **Increase/(decrease) in Capital Financing Requirement** | **32.8** |

**Note 9 Employee Pensions**

Participation in Pension Schemes

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

The Council participates in three post-employment schemes and provides a further local discretionary scheme:

- The Local Government Pension Scheme administered locally by the West Midlands Pension Fund. From 1 April 2014 the LGPS moved from a defined benefit final salary scheme to a Career Average Revalued Earnings (CARE) scheme. The Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets. The benefits a member builds up from 1 April 2014 will be based on the CARE scheme calculation; the benefits built up to 31 March 2014 will be protected under the Final Salary calculation.
- Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. During the year, the Council contributed £7.0 million which was a contribution rate of 16.48% from April 2019 to August 2019 and 23.68% from September 2019 to March 2020 (2018-2019: £5.4 million; 16.48%).
- There are a number of employees transferred from the NHS, when certain public health services were transferred to the Council 4 years ago, who are members of the NHS pension scheme. During the year, the Council contributed £31,766 which was a contribution rate of 14.38% (2018-2019: £54,769; 14.38%).
- In addition, the Council is responsible for all non-funded pension payments relating to added years' enhancements it has awarded outside the terms of the teachers' scheme together with related increases.

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

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

### Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:



| 2018-2019 | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|
| Council | | Subsidiary | | Council | | Subsidiary |
| LGPS | Teachers | | | LGPS | Teachers | |
| £m | £m | £m | | £m | £m | £m |
| | | | **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT** | | | |
| | | | **Cost of Services:** | | | |
| (37.3) | - | (6.2) | - Current Service Cost | (40.9) | - | (6.8) |
| - | - | - | - Past Service Costs | - | - | - |
| (9.6) | - | (2.3) | - Settlements and Curtailments | (2.3) | - | (0.1) |
| (0.5) | - | (0.1) | - Administration Expenses | (0.7) | - | (0.1) |
| | | | **Financing and Investment Income and Expenditure:** | | | |
| (14.0) | (1.3) | (0.9) | - Net Interest Cost | (12.9) | (1.1) | (0.9) |
| **(61.4)** | **(1.3)** | **(9.5)** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **(56.8)** | **(1.1)** | **(7.9)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement: | | | |
| 46.5 | 1.3 | 3.3 | - Remeasurements (Liabilities and Assets) | 19.2 | (0.4) | 9.7 |
| **(14.9)** | **-** | **(6.2)** | **Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement** | **(37.6)** | **(1.5)** | **1.8** |
| | | | | | | |
| | | | **MOVEMENT IN RESERVES STATEMENT** | | | |
| (61.4) | (1.3) | - | - Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code | (56.8) | (1.1) | - |
| | | | | | | |
| | | | Actual amount charged against the General Fund Balance for pensions in the year: | | | |
| 56.6 | - | 3.9 | - Employer's contributions payable to scheme | 4.1 | - | 3.9 |
| - | 4.3 | - | - Retirement benefits payable to pensioners | - | 4.3 | - |
| **(4.8)** | **3.0** | **3.9** | **Total Movement in Reserves** | **(52.7)** | **3.2** | **3.9** |

Please note the Subsidiary referred to in the tables above and below is Wolverhampton Homes. The Council's other subsidiary, WV Living is not included as no employees were employed by the company during the year or the prior year.

**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:

| 2018-2019 | | Assets | 2019-2020 | |
|---|---|---|---|---|
| Council | Subsidiary | | Council | Subsidiary |
| £m | £m | | £m | £m |
| **1,061.1** | **153.0** | **Opening balance at 1 April** | **1,129.5** | **160.6** |
| 27.4 | 3.9 | Interest Income | 26.6 | 3.9 |
| 12.7 | 1.8 | Remeasurement Gain/(Loss) | (20.6) | (3.8) |
| 56.6 | 3.9 | Employer contributions | 4.1 | 3.9 |
| 6.8 | 1.2 | Contributions by scheme participants | 7.0 | 1.2 |
| (51.3) | (3.0) | Benefits paid | (52.8) | (4.0) |
| 16.6 | - | Settlements | 0.4 | - |
| (0.4) | (0.1) | Admin Expenses | (0.7) | (0.1) |
| **1,129.5** | **160.6** | **Closing balance at 31 March** | **1,093.5** | **161.7** |



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

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £45.7 million (2018-2019: Gain £40.1 million).

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £656.3 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, because:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme's actuary;
- Finance is only required to be raised to cover discretionary benefits when the pensions are paid.
- The Council works with the West Midlands Pension Fund to ensure that employer contributions are at a rate which is affordable, given current economic pressures which are being experienced by many local authorities. The Council has agreed a strategy with the Fund and its actuaries whereby the Future Services Contribution is determined based upon a percentage of the monthly payroll payment and the Past Service Deficit totalling £21.2 million (based on the 2019 triennial valuation) will be recovered over the period from 2020-2021 to 2022-2023.

- The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 are £29.4 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2021 are £1.9 million.

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

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

| 2018-2019 | | | | | 2019-2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Council | | | Subsidiary | | Council | | | Subsidiary |
| Funded: LGPS | Unfunded: LGPS | Unfunded: Teachers | Funded: LGPS | Liabilities | Funded: LGPS | Unfunded: LGPS | Unfunded: Teachers | Funded: LGPS |
| £m | £m | £m | £m | | £m | £m | £m | |
| **(1,622.6)** | **(21.7)** | **(57.4)** | **(190.6)** | **Opening balance at 1 April** | **(1,651.3)** | **(19.7)** | **(53.1)** | **(200.6)** |
| (37.3) | - | - | (6.2) | Current service cost | (40.9) | - | - | (6.8) |
| (41.1) | (0.4) | (1.3) | (4.8) | Interest cost | (39.2) | (0.4) | (1.1) | (4.8) |
| (6.8) | - | - | (1.2) | Contributions - participants | (7.0) | - | - | (1.2) |
| 33.3 | 0.5 | 1.3 | 1.5 | Remeasurement Gain/(Loss) | 43.4 | (3.6) | (0.4) | 13.4 |
| 49.4 | 1.9 | 4.3 | 3.0 | Benefits paid | 50.9 | 1.9 | 4.3 | 4.0 |
| (11.4) | - | - | (2.1) | Past service costs | - | - | - | - |
| (1.9) | - | - | (0.2) | Curtailments | (2.5) | - | - | (0.1) |
| (12.9) | - | - | | Settlements | (0.3) | - | - | - |
| **(1,651.3)** | **(19.7)** | **(53.1)** | **(200.6)** | **Closing balance at 31 March** | **(1,646.9)** | **(21.8)** | **(50.3)** | **(196.1)** |

| 2018-2019 LGPS Council £m | 2018-2019 LGPS Subsidiary £m | Asset Category | 2019-2020 LGPS Council £m | 2019-2020 LGPS Subsidiary £m |
|---|---|---|---|---|
| 667.6 | 95.0 | Equities | 622.5 | 92.0 |
| 108.5 | 15.4 | Government Bonds | 127.1 | 18.8 |
| 43.5 | 6.2 | Other Bonds | 45.7 | 6.8 |
| 95.9 | 13.6 | Property | 97.3 | 14.4 |
| 35.8 | 5.1 | Cash/Liquidity | 39.2 | 5.8 |
| 178.2 | 25.3 | Other | 161.7 | 23.9 |
| **1,129.5** | **160.6** | **Total** | **1,093.5** | **161.7** |



As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are reported on the basis of material valuation uncertainty. The Council's share of these assets is £67.6 million.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years' dependent on assumptions about variables such as mortality rates and salary levels. Both the Teachers' Discretionary Pension Scheme and the West Midlands Pension Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the West Midlands Pension Fund are based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the actuary are set out in the following table.

| 2018-2019 | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|
| Council | | Subsidiary | | Council | | Subsidiary |
| LGPS | Teachers | | | LGPS | Teachers | |
| | | | Mortality assumptions: | | | |
| | | | | | | |
| | | | Longevity at 65 for current pensioners (years): | | | |
| 20.9 | 20.9 | 20.9 | - Men | 21.9 | 21.9 | 21.9 |
| 23.2 | 23.2 | 23.2 | - Women | 24.1 | 24.1 | 24.1 |
| | | | | | | |
| | | | Longevity at 65 for future pensioners (years): | | | |
| 22.6 | n/a | 22.6 | - Men | 23.8 | n/a | 23.8 |
| 25 | n/a | 25 | - Women | 26.0 | n/a | 26.0 |
| | | | | | | |
| 2.4 | 2.5 | 2.4 | Rate of inflation | 1.9 | 1.9 | 1.9 |
| 3.9 | n/a | 3.9 | Rate of increase in salaries | 2.9 | n/a | 2.9 |
| 2.4 | 2.5 | 2.4 | Rate of increase in pensions | 1.9 | 1.9 | 1.9 |
| 2.4 | 2.2 | 2.4 | Rate for discounting scheme liabilities | 2.4 | 2.3 | 2.4 |

**Analysis of Group Net Pension Liability**

The following table analyses the net liability for the group.

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Local Government Pension Scheme | Discretionary Pension Scheme | | Local Government Pension Scheme | Discretionary Pension Scheme |
| £m | £m | | £m | £m |
| | | **Estimated Liabilities in Scheme** | | |
| (1,671.0) | (53.1) | City of Wolverhampton Council | (1,668.7) | (50.3) |
| (200.5) | - | Wolverhampton Homes Limited | (195.9) | - |
| **(1,871.5)** | **(53.1)** | **Total Liabilities** | **(1,864.6)** | **(50.3)** |
| | | | | |
| | | **Estimated Assets in Scheme** | | |
| 1,129.5 | - | City of Wolverhampton Council | 1,093.5 | - |
| 160.6 | - | Wolverhampton Homes Limited | 161.7 | - |
| **1,290.1** | **-** | **Total Assets** | **1,255.2** | **-** |
| | | | | |
| **(581.4)** | **(53.1)** | **Net Liabilities** | **(609.4)** | **(50.3)** |

**Impact on the Council's Future Cash Flows**

The Council's arrangements with the West Midlands Pension Fund was subject to a triennial review in 2019 and covered pension payments for the period from 2020-2021 to 2022-2023; the agreed payments have been built into the budget and the authority's medium-term financial plans. In previous years, the Council has made annual advance payments of pension contributions to the Fund, in order to reduce the total costs; the Council will continue to explore options to accelerate contribution payments to secure additional savings. The total contributions expected to be

made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 are £29.4 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2021 are £1.9 million.

**Note 10 Financial Instruments**

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

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Long-Term £m | Current £m | | Long-Term £m | Current £m |
| | | **Financial Assets Held at FVOCI** | | |
| 24.7 | - | Equity instruments – Birmingham Airport and WV Living Shareholding | 15.5 | - |
| **24.7** | **-** | **Total Financial Assets Held at FVOCI** | **15.5** | **-** |
| | | **Financial Assets Held at Amortised Cost** | | |
| 1.3 | - | Finance Leases | 1.3 | - |
| - | 25.3 | Investments | - | 30.4 |
| - | 2.8 | Cash and Cash Equivalents | - | 2.0 |
| - | 53.2 | Current Receivables | - | 72.8 |
| **1.3** | **81.3** | **Total Financial Assets Held at Amortised Cost** | **1.3** | **105.2** |
| | | **Financial Liabilities Held at Amortised Cost** | | |
| (738.4) | (13.3) | Borrowings | (725.9) | (17.8) |
| - | (72.2) | Current Payables | - | (82.6) |
| (12.5) | - | Debt arising from the County Council Reorganisation | (11.2) | - |
| (5.4) | - | Grant Receipts in Advance - Capital | (5.0) | - |
| **(756.3)** | **(85.5)** | **Total Financial Liabilities Held at Amortised Cost** | **(742.1)** | **(100.4)** |
| | | **Other Financial Liabilities** | | |
| (88.8) | (4.1) | PFIs | (84.0) | (4.5) |

| | | | | |
|---|---|---|---|---|
| - | (5.5) | Current Payables | - | (21.9) |
| - | (9.4) | Provisions | - | (10.1) |
| **(88.8)** | **(19.0)** | **Total Other Financial Liabilities** | **(84.0)** | **(36.5)** |
| | | **Other Financial Assets** | | |
| - | (27.6) | Current Receivables | | 37.8 |
| **-** | **(27.6)** | **Total Other Financial Assets** | **-** | **37.8** |



### 10A Financial Assets Held at Amortised Cost - Investments

As at 31 March 2020, the Council was holding £28.3 million in money market funds and £2.1 million in a deposit account. The fair value of these investments is valued by calculating the net present value of cash flows that are expected to take place over the remaining life of the investments.

### 10B Lender Option Borrower Option loans (LOBOs)

The Council held the below LOBOs as at 31 March 2020

| Date raised | Lender | Original Principal £m | Rate % | Maturity date | Step up details | Next Two Step-up Dates |
|---|---|---|---|---|---|---|
| **Loans with No Step-Ups Remaining** | | | | | | |
| 23/05/2002 | Commerzbank AG | 4.0 | 4.95 | 23/05/2066 | | |
| 24/01/2003 | Dexia Credit Local | 5.0 | 4.26 | 26/07/2066 | | |
| 30/01/2003 | Dexia Credit Local | 5.0 | 4.29 | 29/01/2066 | | |
| 04/07/2003 | Just Retirement Ltd | 3.0 | 4.40 | 04/07/2066 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 30/06/2004 | Danske Bank | 5.0 | 4.63 | 30/06/2066 | | |
| 01/12/2004 | Danske | 5.0 | 4.81 | 01/12/2066 | | |
| 08/10/2004 | Commerzbank AG | 7.0 | 4.60 | 10/04/2066 | | |
| **Loans Still Subject to Step-Ups** | | | | | | |
| 31/05/2006 | Commerzbank AG | 7.0 | 3.60 | 31/05/2066 | 31 May 2009 and each period of 5 years thereafter | 31/05/2019<br>31/05/2024 |
| 31/07/2006 | Commerzbank AG | 7.0 | 3.60 | 31/07/2066 | 31 July 2010 and each period of 5 years thereafter | 31/07/2020<br>31/07/2025 |
| **Loans Converted to Fixed Rate with effect from 30 June 2016** | | | | | | |
| 30/03/2004 | Barclays Bank | 2.3 | 4.58 | 30/03/2066 | | |
| 30/04/2004 | Barclays Bank | 2.5 | 4.58 | 28/04/2066 | | |
| 31/08/2004 | Barclays Bank | 5.0 | 4.58 | 28/02/2066 | | |
| 29/10/2004 | Barclays Bank | 5.0 | 4.58 | 28/04/2066 | | |
| 13/10/2004 | Barclays Bank | 7.0 | 4.58 | 13/04/2066 | | |
| 03/12/2004 | Barclays Bank | 2.0 | 4.39 | 05/06/2066 | | |
| 23/05/2005 | Barclays Bank | 5.0 | 4.78 | 23/05/2066 | | |
| 15/06/2005 | Barclays Bank | 5.0 | 4.78 | 15/06/2066 | | |
| 04/07/2005 | Barclays Bank | 5.0 | 4.78 | 04/07/2066 | | |
| 15/08/2005 | Barclays Bank | 5.0 | 4.39 | 15/02/2066 | | |
| 15/09/2005 | Barclays Bank | 5.0 | 4.39 | 15/03/2066 | | |

During 2004 to 2006 the Council entered into £55.8 million LOBOs with Barclays Bank Plc, repayable in 2066. In June 2016, Barclays decided to waive its right permanently under the lenders option of the LOBO feature to change interest rates in the future and converted them into fixed rate loans. No other terms or conditions of the loans were amended, and the loans will still mature in 2066.

LOBOs are valued by calculating the net present value of cash flows that are expected to take place over the remaining life of the loan. The key inputs for this valuation model are contractual future cash flows which are discounted using a discount rate. The discount rate used for LOBOs range from 1.48% to 2.29%.

LOBOs carry the risk that the lender can change certain conditions of the loan such as the dates and the interest rate. If this occurs, the Council then has the option of either continuing with the loan or redeeming it in full without a penalty, so long as this is done within the allowed timescale.

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

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

a) The provision of community services such as sport and recreation facilities and community centres; and

b) For economic development purposes to provide suitable accommodation for local businesses.

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

| 2018-2019 | | | | | 2019-2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Amounts Payable | | Amounts Receivable | | | Amounts Payable | | Amounts Receivable | |
| Finance Leases | Operating Leases | Finance Leases | Operating Leases | | Finance Leases | Operating Leases | Finance Leases | Operating Leases |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| **-** | **1.0** | **-** | **3.5** | **Payable/receivable in the year** | **-** | **1.3** | **-** | **3.3** |
| - | 1.1 | - | 3.3 | Due within one year | - | 1.0 | - | 3.1 |
| - | 1.8 | - | 11.4 | Due in one to five years | - | 1.4 | - | 10.6 |
| - | - | 5.9 | 21.7 | Due after five years | - | 0.8 | 5.9 | 13.2 |
| **-** | **2.9** | **5.9** | **36.4** | **Total due in future years** | **-** | **3.2** | **5.9** | **26.9** |

The figures included in Note 10C have been restated for 2018-2019, following the work undertaken in preparation of the new accounting standard yet to be adopted IFRS 16.

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

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 0.1 | Vehicles, Plant, Furniture and Equipment | - |

**10D Equity instruments designated as Fair Value Through Other Comprehensive Income - Birmingham Airport Shareholding**

West Midlands Local Authorities collectively own 49% of Birmingham Airport Holdings Limited. The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. The shares are not quoted on a stock exchange. On behalf of the West Midlands Authorities, Solihull Council undertakes a valuation review using Level 3 Inputs using an Earnings Based Approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry. The valuation review resulted in a decrease of £9.2 million in the shareholding of the Council.

(Previously the shares were categorised as Level 2 in the Council's accounts as some of the inputs used to determine the valuation were observable. However, because some of the inputs are unobservable (i.e. a calculation of an earnings multiple using non-quoted information), these override the observable inputs and Level 3 should be used.)

**No Active Market (Valuation)**

| | Input Level in Fair Value Hierarchy | Valuation Technique Used to Measure Fair Value | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|---|---|
| **Birmingham Airport Holdings Ltd** | | | | |
| Ordinary Shares | Level 3 | Earning based valuation | 22.3 | 13.0 |
| Preference Shares | | | 1.5 | 1.5 |
| **Total** | | | **23.8** | **14.5** |

**Reconciliation of Fair Value Measurements for Financial Assets Carried at Fair Value Categorised Within Level 3 of the Fair Value Hierarchy for Financial Assets.**

| 2019-2020 | Unquoted Shares | Other | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Opening balance at 1 April** | 23.8 | - | 23.8 |
| Transfers into Level 3 | - | - | - |
| Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure | (9.3) | - | (9.3) |
| Additions | - | - | - |
| Disposals | - | - | - |
| **Closing Balance 31 March** | **14.5** | **-** | **14.5** |

**Investments in Equity Instruments Designated at Fair Value Through Other Comprehensive Income**

| 2019-2020 | Fair value | Change in fair value during 2019-2020 | Dividends received during 2019-2020 |
|---|---|---|---|
| | £m | £m | £m |
| Birmingham Airport Holdings Ltd | 14.5 | (9.3) | 1.4 |

## 10E Expected Credit Loss Provision

It is determined that the carrying amount for short term investments, cash and cash equivalents and trade receivables is a reasonable approximation of fair value. Further information on Accounts Receivable can be found in Note 6.

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| **25.2** | **Allowance for Expected Credit Losses Brought Forward** | **25.9** |
| (4.3) | Amounts Written-off During the Year | (2.8) |
| 5.0 | Increase in Allowance During the Year | 6.7 |
| **25.9** | **Allowance for Expected Credit Losses Carried Forward** | **29.8** |



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

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

**Bentley Bridge Leisure Centre:** In 2006-2007 the Council signed a thirty-year contract for a new leisure facility. The scheme was for the design, build, funding and operation of a major new regional leisure facility. The facility includes a leisure pool with a river run, wave pool and flumes, a 25 metre 6 lane traditional pool, a studio pool, a 140-station fitness suite, a dance/aerobics suite, children's play feature and a café. The facility cost £13.3 million and opened on 12 December 2006. The facility is operated by Places for People Leisure 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 £55.2 million. Over the remaining life of the project the commitments are:

| | Payment for Services | Interest | Capital Expenditure/Capital Redemption | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable within one year | 0.5 | 1.1 | 0.3 | **1.9** |
| Payable within two to five years | 2.7 | 4.0 | 0.8 | **7.5** |
| Payable within six to ten years | 3.5 | 4.9 | 1.5 | **9.9** |
| Payable within eleven to fifteen years | 2.7 | 4.5 | 3.4 | **10.6** |
| Payable within sixteen to twenty years | 1.1 | 1.2 | 1.5 | **3.8** |
| **Total** | **10.5** | **15.7** | **7.5** | **33.7** |

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

The currently liability for the Bentley Bridge PFI in 2019-2020 was £0.3m.

| | Property, Plant and Equipment | Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2019** | **10.4** | **(7.9)** | **2.5** |
| Depreciation/Revaluation | (0.3) | - | **(0.3)** |
| Capital Expenditure/Principal Redemption | - | 0.3 | **0.3** |
| **Balance at 31 March 2020** | **10.1** | **(7.6)** | **2.5** |

**Waste Disposal Facility:** In 1996 the Council signed a contract for the construction and maintenance of a waste disposal facility. The facility cost £26.6 million. The contract period during which the Council has the right to use the facility is 25 years from the date that the facility became operational (1998). At the end of the contract period the asset will revert to the ownership of the Council, but there is an option to then re-tender, operate or operate with additional investment being targeted at the plant. During the contract, period the Council could terminate the contract if the clauses relating to termination in the contract are triggered. The facility is managed by Wolverhampton Waste Services Limited (WWS). The main income stream for WWS is the 'gate fee' paid by the Council, which is based on the total tonnage of weight delivered to the facility for disposal. In addition to this, WWS generate a significant proportion of their turnover from the sale of electricity generated at the facility. The total amount payable by the Council over the life of the contract is estimated to be £149.3 million. Over the remaining life of the contract the estimated payments are:

| | Payment for Services | Interest | Capital Expenditure/Capital Redemption | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable within one year | 5.7 | 0.4 | 1.6 | **7.7** |
| Payable within two to five years | - | - | - | **-** |
| **Total** | **5.7** | **0.4** | **1.6** | **7.7** |

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

| | Property, Plant and Equipment | Deferred Income | Liability | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Balance at 31 March 2019** | **3.3** | **(0.7)** | **(3.0)** | **(0.4)** |
| Depreciation/Revaluation | (0.3) | 0.3 | - | **-** |
| Capital Expenditure/Principal Redemption | - | - | 1.5 | **1.5** |
| **Balance at 31 March 2020** | **3.0** | **(0.4)** | **(1.5)** | **1.1** |

| | Property, Plant and Equipment | Deferred Income | Liability | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Balance at 31 March 2018** | **3.0** | **(0.9)** | **(4.4)** | **(2.4)** |
| Depreciation/Revaluation | 0.3 | 0.3 | - | **0.6** |
| Capital Expenditure/Principal Redemption | - | - | 1.4 | **1.4** |
| **Balance at 31 March 2019** | **3.3** | **(0.7)** | **(3.0)** | **(0.4)** |

The currently liability for the Waste Disposal PFI in 2019-2020 was £1.6m.

**Highfields & Penn Fields School:** As part of the Building Schools for the Future Programme the Council entered into a PFI contract for the construction and management of a new building for the Highfields School and Penn Fields Special School. The construction of the new building

cost £46.1 million. The total amount payable by the Council over the life of the contract is estimated to be £199.1 million. Over the remaining life of the contract the estimated payments are:

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

| | Payment for Services | Interest | Capital Expenditure/Capital Redemption | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable within one year | 2.1 | 4.5 | 1.1 | 7.7 |
| Payable within two to five years | 9.2 | 16.8 | 5.3 | 31.3 |
| Payable within six to ten years | 12.3 | 17.6 | 10.7 | 40.6 |
| Payable within eleven to fifteen years | 16.3 | 10.0 | 16.2 | 42.5 |
| Payable within sixteen to twenty years | 8.6 | 2.2 | 10.6 | 21.4 |
| **Total** | **48.5** | **51.1** | **43.9** | **143.5** |

The currently liability for Highfields and Penn Fields PFI in 2019-2020 was £1.0m.

| | Property, Plant and Equipment | Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2019** | **12.1** | **(40.3)** | **(28.2)** |
| Depreciation/ Revaluation | (4.3) | - | **(4.3)** |
| Capital Expenditure/Principal Redemption | - | 1.0 | **1.0** |
| **Balance at 31 March 2020** | **7.8** | **(39.3)** | **(31.5)** |

| | Property, Plant and Equipment | Long-Term Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2018** | **11.5** | **(41.2)** | **(29.7)** |
| Depreciation/ Revaluation | 0.5 | - | **0.5** |
| Capital Expenditure/Principal Redemption | 0.1 | 0.9 | **1.0** |
| **Balance at 31 March 2019** | **12.1** | **(40.3)** | **(28.2)** |

During 2015-2016 Highfields School converted to an academy and entered a 125-year lease with the Council. This lease has been recognised as a finance lease and, accordingly, the Highfields School has been derecognised as an asset of the Council. The remaining carrying asset value relates to Penn Fields Special School which has not converted to an academy. The terms of the PFI contract and level of unitary payment remains unchanged, however, during 2019-2020 the Council received a contribution of £2.2 million from the Academy representing the balance of the unitary payment not funded by capital grants from Central Government.

**St. Matthias School and Heath Park Academy:** As part of the Building Schools for the Future Programme the Council entered into a new PFI contract for the construction and management of new buildings for St. Matthias School and Heath Park Academy. The construction costs of the new buildings were £19.7 million for St. Matthias and £24.3 million for Heath Park Academy. As Heath Park is an academy and has entered a long-term finance lease with the Council the amount capitalised has been derecognised as a disposal. The total amount payable by the Council over the life of the contract is estimated to be £156.8 million. Over the remaining life of the contract the estimated payments are:

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

| | Payment for Services | Interest | Capital Expenditure/Capital Redemption | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Payable within one year | 1.7 | 2.8 | 1.4 | **5.9** |
| Payable within two to five years | 7.1 | 10.5 | 6.3 | **23.9** |
| Payable within six to ten years | 10.4 | 11.4 | 9.2 | **31.0** |
| Payable within eleven to fifteen years | 13.4 | 8.8 | 10.4 | **32.6** |
| Payable within sixteen to twenty years | 18.7 | 5.8 | 10.0 | **34.5** |
| Payable within twenty-one to twenty-five years | 1.6 | 0.4 | 1.0 | **3.0** |
| **Total** | **52.9** | **39.7** | **38.3** | **130.9** |

The currently liability for St Matthias and Heath Park PFI in 2019-2020 was £1.4m.

| | Property, Plant and Equipment | Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2019** | **12.7** | **(39.6)** | **(26.9)** |
| Depreciation/ Revaluation | (0.8) | - | **(0.8)** |
| Capital Expenditure/Principal Redemption | - | 1.3 | **1.3** |
| **Balance at 31 March 2020** | **11.9** | **(38.3)** | **(26.4)** |

| | Property, Plant and Equipment | Liability | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 31 March 2018** | **24.5** | **(40.9)** | **(16.4)** |
| Depreciation/ Revaluation | (11.8) | - | **(11.8)** |
| Capital Expenditure/Principal Redemption | - | 1.3 | **1.3** |
| **Balance at 31 March 2019** | **12.7** | **(39.6)** | **(26.9)** |

Heath Park Academy is an existing academy and had previously entered into a 125-year lease with the Council which has been classified as a finance lease and, on commencement of the PFI an amended agreement has been entered. As this is a similar agreement the asset has been derecognised as an asset of the Council and treated as a disposal. The remaining carrying asset value relates to St. Matthias School which has not converted to an academy. The terms of the PFI contract and level of unitary payment remains unchanged, however, during 2019-2020 the Council received a contribution of £1.3 million from Heath Park Academy representing the balance of the unitary payment not funded by capital grants from Central Government.

**10G Financial Liabilities at Amortised Cost**

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

| 31 March 2019 | | | | | 31 March 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Carrying Value | | Fair Value | | | Carrying Value | | Fair Value | |
| Long-Term | Current | Long-Term | Current | | Long-Term | Current | Long-Term | Current |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| (738.4) | (13.3) | (964.7) | (13.4) | Borrowings | (725.8) | (17.8) | (914.7) | (17.8) |
| (12.5) | - | (12.5) | - | Debts Arising from the County Council Reorganisation | (11.2) | - | (11.2) | - |
| (92.9) | - | (92.9) | - | PFIs | (82.3) | (4.3) | (88.4) | - |

**Basis of Fair Value Valuation**

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

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

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

**10H Debt Arising from the West Midlands County Council Reorganisation**

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

**10I Gains and Losses** The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the following table.

| 2018-2019 | | | | | 2019-2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Assets: Loans and Receivables | Financial Assets: Equity Instruments | Financial Liabilities Measured at Amortised Cost | Total | | Financial Assets: Loans and Receivables | Financial Assets: Equity instruments | Financial Liabilities Measured at Amortised Cost | Total |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| - | - | 37.0 | **37.0** | Interest Expense | - | - | 37.2 | **37.2** |
| (0.9) | - | - | **(0.9)** | Interest Income | (1.9) | - | - | **(1.9)** |
| - | (0.1) | - | **(0.1)** | (Gain) or Loss on Valuation of Unquoted Equity Investment | - | 9.3 | - | **9.3** |
| **(0.9)** | **(0.1)** | **36.9** | **35.9** | **Net (Income)/Expense** | **(1.9)** | **9.3** | **37.2** | **44.6** |

## 10J Reconciliation of Liabilities Arising from Financing Activities

| | 31 March 2019 | Financing Cash Flows | Non-Cash Changes | | 31 March 2020 |
|---|---|---|---|---|---|
| | | | Acquisition | Other Non-Cash Changes | |
| | £m | £m | £m | £m | £m |
| Long-Term Borrowings | (738.4) | 12.6 | - | - | (725.8) |
| Short-Term Borrowings | (13.3) | (4.5) | - | - | (17.8) |
| On Balance Sheet PFI Liabilities | (90.6) | 4.1 | - | - | (86.5) |
| **Total Liabilities from Financing Activities** | **(842.3)** | **12.2** | **-** | **-** | **(830.1)** |

| | 31 March 2018 | Financing Cash Flows | Non-Cash Changes | | 31 March 2019 |
|---|---|---|---|---|---|
| | | | Acquisition | Other Non-Cash Changes | |
| | £m | £m | £m | £m | £m |
| Long-Term Borrowings | (672.4) | (66.0) | - | - | (738.4) |
| Short-Term Borrowings | (10.7) | (2.0) | - | (0.6) | (13.3) |
| On Balance Sheet PFI Liabilities | (94.5) | 3.9 | - | - | (90.6) |
| **Total Liabilities from Financing Activities** | **(777.6)** | **(64.1)** | **-** | **(0.6)** | **(842.3)** |

## 10K 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.



## Amounts Arising from Expected Credit Losses

The changes in the loss allowance for each class of financial asset during the year are as follows:

| | Short-Term Investments - Loans | Short-Term Investments - Loans | Financial Guarantee | Trade Receivables and Lease Receivables | Total |
|---|---|---|---|---|---|
| | 12 Month Expected Credit Losses | Lifetime Expected Credit Losses (Credit Impaired) | Lifetime Expected Credit Losses (Not Credit Impaired) | Lifetime Expected Credit Losses (Simplified Approach) | |
| | £m | £m | £m | £m | £m |
| **Opening balance as at 1 April 2019** | **0.3** | **0.1** | **0.2** | **8.1** | **8.7** |
| Transfers: | | | | | |
| - Individual financial assets transferred to 12-month expected credit losses | - | - | - | - | - |
| - Individual financial assets transferred to lifetime expected credit losses | - | - | - | - | - |
| - Individual financial assets transferred to lifetime expected credit losses credit impaired | - | - | - | - | - |
| New financial assets originated or purchased | 1.0 | - | - | 0.4 | 1.4 |
| Amounts written-off | - | - | - | 0.1 | 0.1 |
| Financial assets that have been derecognised | - | - | - | - | - |
| Changes due to modifications that did not result in derecognition | - | - | - | - | - |
| Changes in models/risk parameters | - | - | - | - | - |
| Other changes | - | - | - | - | - |

| | | | | | |
|---|---|---|---|---|---|
| **Closing Balance as at 31 March 2020** | **1.3** | **0.1** | **0.2** | **8.6** | **10.2** |

**Credit and Counterparty Risk Management**

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

The Council's maximum exposure to credit risk at 31 March 2020 was £142.5 million (31 March 2019: £110.0 million). This relates entirely to Loans and Receivables. The Council does not hold any collateral in respect of these amounts.

**Collateral and Other Credit Enhancements Obtained**

The Council did not obtain any collateral or other credit enhancements during 2019-2020 or 2018-2019.

**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**

| 2018-2019 £m | Time until Repayment | 2019-2020 £m |
|---|---|---|
| 8.0 | Payable next year | 12.5 |
| 29.8 | Payable within two to five years | 17.3 |
| 52.4 | Payable within six to ten years | 61.3 |
| 80.9 | Payable within eleven to fifteen years | 82.0 |
| 51.0 | Payable within sixteen to twenty years | 61.0 |
| 73.3 | Payable within twenty-one to twenty-five years | 77.3 |
| 69.5 | Payable within twenty-six to thirty years | 45.5 |
| 107.6 | Payable within thirty-one to thirty-five years | 127.6 |
| 61.6 | Payable within thirty-six to forty years | 41.6 |
| 78.0 | Payable within forty-one to forty-five years | 78.0 |
| 128.8 | Payable within forty-six to fifty years | 128.8 |
| - | Payable within fifty-one to sixty years | - |
| **740.9** | **Total** | **732.9** |



**Interest Rate Risk Management**

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

If interest rates had been 1% higher during 2019-2020, the Council's interest payable would have increased by £7.4 million, and its interest receivable would have increased by £359,000, resulting in an increase in net expenditure of £7.0 million. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £7.0 million.

**Inflation Risk Management**

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

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



**Price Risk**

The Council does not generally invest in equity shares but does have shareholdings to the value of £13.0 million in Birmingham Airport Holdings Ltd. The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings, have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares are all classified as 'unquoted equity investment at cost', meaning that all movements in price will impact on gains and losses recognised in 'Other Comprehensive Income and Expenditure'.

**Refinancing Risk Management**

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

**Legal and Regulatory Risk Management**

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

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

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

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



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

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

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

Wolverhampton Homes Limited's main income stream comes from the Council, in the form of a management fee for housing management and maintenance which amounted to £39.5 million in 2019-2020 (£39.5 million in 2018-2019). 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 £48.1 million in 2019-2020 (2018-2019: £47.0 million), whilst payments by Wolverhampton Homes Limited to the Council totalled £6.7 million (2018-2019: £6.5 million). At the year end, Wolverhampton Homes Limited owed the Council £3.6 million (2018-2019: £3.3 million), and the Council owed Wolverhampton Homes Limited £7.9 million (2017-2018: £2.7 million).

Yoo Recruit Ltd is a wholly owned subsidiary which was formed in 2014. The Council does not consider the transactions and balances of this company to be material, so they have not been consolidated into the Group Accounts. Payments by the Council to Yoo Recruit Ltd amounted to £9.4 million (2018-2019: £9.1 million) while payments by Yoo Recruit Ltd to the Council totalled £129,259 (2018-2019: £124,820).

At 31 March 2020, the amount owing to Yoo Recruit Ltd, included in current payables, was £622,725 (2018-2019: £538,439) while an amount, included in current receivables, of £126,529 (2018-2019: £113,864) was owed to the Council.

WV Living was formed as a wholly owned subsidiary of the Council in 2016-2017. During 2019-2020 the company has incurred expenditure of £29.4 million, of which £1.4 million was borrowing costs (2018-2019: £8.4 million) and has stock assets of £26.0 million as at 31 March 2020 (£7.7 million at 31 March 2019). £0.9 million of expenditure relates to transactions with the Council (2018-2019: £0.7 million). Turnover in 2019-2020 was £8.7 million (2018-2019: £2.5 million), £2.2 million of this being transactions with the Council (2018-2019: £0.2 million). At the year-end WV Living owed the Council £27.5 million of which £26.5 million was loan financing and £1.0 million for services provided. (2018-2019: £7.4 million of which £7.0 million was loan financing and £0.4 million for services provided). The Council owed WV Living £0.8 million (2018-2019: £0 million). As the impact on the group accounts is considered by the Council, to be material this year, the company's accounts have been wholly consolidated in the Group Accounts in 2019-2020 and also in 2018-2019, for comparison.

LGPS Central Limited has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPS Central Pool, of which Wolverhampton City Council, as the administering authority for West Midlands Pension Fund, is one of the shareholders. Each authority has one Class A voting share in LGPS Central Limited.

The Fund has agreed a number of advisory agreements covering a range of asset classes within the fixed income portfolio and wider illiquid portfolios. LGPS Central Limited has also provided the Fund with execution only services in the management of forward currency hedging positions. The charges in respect of these services totalled £1.539m in 2019-2020 (2018-2019: £1.699m). The amount outstanding in respect of these services at 31 March 2020 was £0.477m (2018-2019: £0.202m).

The Pension Fund was invoiced £2.496 million in respect of Governance, Operator Running and Product Development costs by LGPS Central Limited for 2019-2020 (2018-2019: £2.071 million). The amount outstanding in respect of these services at 31 March 2020 was £0.950 million (2018-2019: £0.370 million). Invoicing frequency changed from monthly to quarterly beginning with the quarter ended 31 March 2020 hence the larger amount outstanding at the end of 2019-2020.

LGPS Central Limited has let office space from Wolverhampton City Council since 1 April 2018 on a sub leasing arrangement. The rental income and rates receivable by Wolverhampton City Council from LGPS Central Limited in 2019-2020 totalled £147,469 (2018-2019: £81,798) and the reimbursement of associated utilities and maintenance charges for 2019-2020 totalled £30,695 (2018-2019: £8,021). In addition, West Midlands Pension Fund provided graphic design services to LGPS Central Limited for fees of £8,988 (2018-2019: £11,770).

LGPS Central Limited is an admitted body and employs staff that are active members of the West Midlands Pension Fund. Normal contributions receivable from LGPS Central Limited for the year to 31 March 2020 were £442,700 (2018-2019: £483,646).

Wolverhampton City Council (via the Pension Fund) has invested £1.315 million in LGPS Central Limited class B shares and £0.685m in class C shares in 2017-2018 and these are both balances at this year-end.

**Other Related Parties**

**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. Grants received from government departments are part of Note 1G - Expenditure and Income Analysed by Nature and the table in Note 2H – Grants details grants and contributions that have been credited to the CIES during the year.



**Local Government**

The City of Wolverhampton Council is a constituent member of the West Midlands Combined Authority (WMCA). The WMCA consists of seven constituent members. These members have the right to vote on council activities, but no member has a controlling interest in the WMCA. The Council does receive grants from the WMCA so that it can deliver services to fulfil WMCA objectives. These grants are included in Note 2H – Grants.

**Members/Councillors**

Councillors have direct control over the Council's financial and operating policies. The total of Councillors' allowances paid during the year is shown in Note 2D. The register of Councillors' interests is available on the Council's website.

**Senior Officers**

Senior Officers' Remuneration is disclosed in Note 2E. Council Officers are required to declare any interests under Section 117 of the Local Government Act 1972.

## Other Public Bodies (subject to common control by Central Government)

The Council has two pooled budget arrangements with Wolverhampton Clinical Commissioning Group (CCG) these relate to child placements with external agencies and health and social care services under the Better Care Fund (BCF). Further information on both schemes can be found in Note 2C – Pooled Budgets.

## West Midlands Pension Fund (WMPF)

The City of Wolverhampton Council administers the Local Government Pension Scheme (LGPS) on behalf of all public body employers throughout the West Midlands, including the 7 local authorities and trades as the West Midlands Pension Fund administering the Local Government Pension Benefits of over 300,000 members. The WMPF statements of account are included within this document under in Section 7.

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

| 2018-2019 | | | 2019-2020 | |
|---|---|---|---|---|
| Expenditure £m | Income £m | Entity and Nature of Relationship | Expenditure £m | Income £m |
| - | (1.3) | **Birmingham Airport Holdings Ltd** - The Council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. In 2019-2020 the Council received a preference dividend of £93,000, ordinary dividends of £1,238,000 and rental income of £67,000. | - | (1.4) |
| 0.7 | (0.3) | **ConnectEd Partnership Ltd** - ConnectEd Partnership Limited (previously known as Wolverhampton Schools' Improvement Partnership) is a company limited by guarantee, established to advance educational opportunities and outcomes for children and young people in Wolverhampton. The board of directors comprises of representatives from each school cluster and phase and the senior substantive Council officer for schools. | 0.5 | (0.3) |
| 0.5 | (2.0) | **i54** - The Council is party to a joint arrangement with Staffordshire County Council for the development of i54 at Wobaston Road, Wolverhampton. | 4.7 | (7.3) |
| 13.8 | (0.1) | **Inspired Spaces Wolverhampton Ltd** - The Council is a 10% shareholder in this company. | 13.9 | (1.1) |
| 0.8 | - | Amethyst Academies Trust | - | - |
| 0.1 | (0.3) | Base 25 | - | - |
| 0.2 | - | Bilston Business Improvement District (BID) | 0.2 | - |
| 0.4 | - | Black Country Consortium Ltd | 0.3 | (0.1) |
| 1.4 | - | Bushbury Hill EMB Ltd | 1.6 | (0.4) |

| | | | | |
|---|---|---|---|---|
| 0.6 | (0.1) | City of Wolverhampton College | 0.6 | (0.1) |
| 1.1 | - | Dovecotes Pendeford TMO | 1.1 | (0.1) |
| 2.0 | - | Hilton Main Construction Ltd | 1.9 | - |
| 0.4 | - | New Park Village TMC | 0.2 | - |
| - | - | Smestow School Academy | 0.1 | (0.2) |
| 0.4 | - | Springfield Horseshoe Co-op/Burton Rd | 0.2 | - |
| - | - | St Bartholomew´s CE Multi Academy Trust | 0.4 | (0.1) |
| 0.2 | - | The Way Wolverhampton Youth Zone | 0.3 | - |
| - | - | Wednesfield High School Academy | - | (0.3) |
| 0.9 | (6.1) | West Midlands Combined Authority | 1.3 | (11.4) |
| 0.2 | (0.1) | West Midlands Growth Company Ltd | 0.3 | - |
| 0.4 | - | Wolverhampton Bid Company Ltd | 0.5 | - |
| **24.1** | **(10.3)** | | **28.1** | **(22.8)** |

**Note 12 Trust Funds**

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

| 2018-2019 | | | | 2019-2020 | | |
|---|---|---|---|---|---|---|
| Income £000 | Expenditure £000 | Fund Value at 31 March 2019 £000 | Fund Name and Purpose | Income £000 | Expenditure £000 | Fund Value at 31 March 2020 £000 |
| - | - | (43) | **Springfield Reading Room -** in its capacity as trustee, the Council is authorised to apply income in various ways | (1) | - | (44) |
| (1) | - | (30) | **Greenway Benefaction - established** for the convalescence, enjoyment, pleasure and amusement of poor children of Bradley | - | - | (30) |
| - | - | (17) | **Butler Bequest Music in the Parks - to** provide music in the parks | - | - | (17) |
| (52) | 55 | (29) | **Mayoral Registered Charity -** funds raised by the Mayor for their chosen local charities | (1) | 30 | - |
| - | - | (13) | **Monica Lloyd -** to provide assistance with further education | (1) | - | (14) |
| (1) | - | (27) | **Other smaller funds** | - | - | (27) |
| **(54)** | **55** | **(159)** | **Total** | **(3)** | **30** | **(132)** |

## Note 13 Reserves

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

### 2019-2020 Part 1 – Usable Reserves and Reserves of Subsidiary

| | General Fund Balance | General Fund Earmarked Reserves | Total General Fund Balance | HRA Balance | 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** | **(10.0)** | **(58.6)** | **(68.6)** | **(6.9)** | **(0.8)** | **(8.9)** | **(4.4)** | **(89.6)** |
| | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **As restated** | **(10.0)** | **(58.6)** | **(68.6)** | **(6.9)** | **(0.8)** | **(8.9)** | **(4.4)** | **(89.6)** |
| | | | | | | | | |
| **(Surplus) or Deficit on Provision of Services** | **58.8** | **-** | **58.8** | **1.0** | **-** | **-** | **-** | **59.8** |
| | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | |
| Revaluations - Gains and losses | **-** | - | **-** | - | - | - | - | **-** |
| Gains on Available-for-Sale Financial Assets | **-** | - | **-** | - | - | - | - | **-** |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | **-** | - | **-** | - | - | - | - | **-** |
| Re-measurements in the pensions reserve | **-** | - | **-** | - | - | - | - | **-** |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | **-** | - | **-** | - | - | - | - | **-** |
| **Total Comprehensive Income and Expenditure** | **58.8** | **-** | **58.8** | **1.0** | **-** | **-** | **-** | **59.8** |
| | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **58.8** | **-** | **58.8** | **1.0** | **-** | **-** | **-** | **59.8** |
| | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | (67.5) | - | **(67.5)** | (22.6) | (18.3) | - | - | **(108.4)** |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | **-** | - | - | - | - | **-** |
| HRA Share of Contribution to Pension Reserve | **-** | - | **-** | - | - | - | - | **-** |
| Movement in the market value of Investment Properties & Council Dwellings | 0.7 | - | **0.7** | - | - | - | - | **0.7** |
| Revenue Expenditure Funded from Capital under Statute | (34.8) | - | **(34.8)** | - | - | - | - | **(34.8)** |
| Net (Gain)/Loss on sale of non-current assets (net book value of assets) | (12.3) | - | **(12.3)** | (10.0) | - | - | - | **(22.3)** |
| Net (Gain)/Loss on sale of non-current assets (disposal proceeds) | 9.6 | - | **9.6** | 11.7 | - | (21.3) | - | **-** |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | - | - | **-** | - | - | - | - | **-** |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | (2.1) | - | **(2.1)** | - | - | - | - | **(2.1)** |
| Net Charges made for retirement benefits in accordance with IAS 19 | (58.1) | - | **(58.1)** | - | - | - | - | **(58.1)** |
| Capital Expenditure charged in the year to the General Fund | 1.8 | - | **1.8** | - | - | - | - | **1.8** |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | (2.2) | - | **(2.2)** | - | - | 2.2 | - | **-** |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | 39.2 | - | **39.2** | - | - | - | - | **39.2** |
| Transfers of HRA Balance | - | - | **-** | - | - | - | - | **-** |
| Capital grants and contributions unapplied credited to CIES | 38.9 | - | **38.9** | - | - | - | (38.9) | **-** |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | **-** | - | - | - | 38.1 | **38.1** |
| 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)** | - | - | - | - | **(0.9)** |
| Capital Expenditure Financed from Usable Capital Receipts | - | - | **-** | - | - | 25.7 | - | **25.7** |
| Other income that cannot be credited to the General Fund | 0.3 | - | **0.3** | - | - | - | - | **0.3** |
| Revenue provision for the repayment of debt | 21.7 | - | **21.7** | 19.9 | - | - | - | **41.6** |
| Transfer of HRA Settlement Receipts to UCR | - | - | **-** | - | - | - | - | **-** |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | **-** | - | 17.9 | - | - | **17.9** |
| Capitalisation under Section 16(2)(b) directive | (2.2) | - | **(2.2)** | - | - | - | - | **(2.2)** |
| Loan receipts transferred to Capital Adjustment Account | - | - | **-** | - | - | (8.0) | - | **(8.0)** |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | **(67.9)** | **-** | **(67.9)** | **(0.9)** | **(0.4)** | **(1.4)** | **(0.8)** | **(71.5)** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | - | - | - | - | - | - | - | - |
| Transfers to/from other Earmarked Reserves | 6.0 | (6.0) | - | - | - | - | - | - |
| | | | | | | | | |
| **Balance Carried Forward** | **(13.0)** | **(64.6)** | **(77.8)** | **(6.8)** | **(1.2)** | **(10.4)** | **(5.2)** | **(101.9)** |

## 2019-2020 Part 2 – Unusable Reserves

| | Short-term Accumulating Compensated Absences Account | Financial Instruments Revaluation Reserve | Capital Adjustment Account | Collection Fund Adjustment Account | Financial Instruments Adjustment Account | Pensions Reserve | Revaluation Reserve | Total Unusable Reserves | TOTAL (Council) | *Reserves of Subsidiaries* | *TOTAL (Group)* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | *£m* | *£m* |
| **Balance Brought Forward** | **3.1** | **(17.3)** | **(469.3)** | **(1.0)** | **5.3** | **619.1** | **(157.7)** | **(17.8)** | **(107.4)** | ***28.7*** | ***(78.7)*** |
| | - | - | - | - | - | 5.5 | - | **5.5** | **5.5** | **-** | ***5.5*** |
| **As restated** | **3.1** | **(17.3)** | **(469.3)** | **(1.0)** | **5.3** | **624.6** | **(157.7)** | **(12.3)** | **(101.9)** | ***28.7*** | ***(73.2)*** |
| | | | | | | | | | | | |
| **(Surplus) or Deficit on Provision of Services** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **59.8** | ***7.6*** | ***67.4*** |
| | | | | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | | | | |
| Revaluations - Gains and losses | - | - | - | - | - | - | 5.4 | **5.4** | **5.4** | - | ***5.4*** |
| Gains on Available-for-Sale Financial Assets | - | 9.2 | - | - | - | - | - | **9.2** | **9.2** | - | ***9.2*** |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | - | - | **-** | **-** | - | **-** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Re-measurements in the pensions reserve | - | - | - | - | - | (18.9) | - | **(18.9)** | **(18.9)** | *(9.7)* | ***(28.6)*** |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| **Total Comprehensive Income and Expenditure** | **-** | **9.2** | **-** | **-** | **-** | **(18.9)** | **5.4** | **(4.3)** | **55.5** | ***(2.1)*** | ***53.4*** |
| | | | | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **-** | **9.2** | **-** | **-** | **-** | **(18.9)** | **5.4** | **(4.3)** | **55.5** | **(2.1)** | ***53.4*** |
| | | | | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | - | - | 105.7 | - | - | - | 2.7 | **108.4** | **-** | - | **-** |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| HRA Share of Contribution to Pension Reserve | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Movement in the market value of Investment Properties & Council Dwellings | - | - | (0.8) | - | - | - | - | **(0.8)** | **-** | - | **-** |
| Revenue Expenditure Funded from Capital under Statute | - | - | 34.8 | - | - | - | - | **34.8** | **-** | - | **-** |
| Net (Gain)/Loss on sale of non-current assets (net book value of assets) | - | - | 13.2 | - | - | - | 9.1 | **22.3** | **-** | - | **-** |
| Net (Gain)/Loss on sale of non-current assets (disposal proceeds) | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | - | - | - | 2.1 | - | - | - | **2.1** | **-** | - | **-** |
| Net Charges made for retirement benefits in accordance with IAS 19 | - | - | - | - | - | 58.1 | - | **58.1** | **-** | - | **-** |
| Capital Expenditure charged in the year to the General Fund | - | - | (1.8) | - | - | - | - | **(1.8)** | **-** | - | **-** |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | - | - | - | - | - | (39.2) | - | **(39.2)** | **-** | - | **-** |
| Transfers of HRA Balance | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Capital grants and contributions unapplied credited to CIES | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | (38.1) | - | - | - | - | **(38.1)** | **-** | - | **-** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 Usable Capital Receipts | - | - | (25.7) | - | - | - | - | **(25.7)** | **-** | - | **-** |
| Other income that cannot be credited to the General Fund | - | - | (0.3) | - | - | - | - | **(0.3)** | **-** | - | **-** |
| Revenue provision for the repayment of debt | - | - | (41.6) | - | - | - | - | **(41.6)** | **-** | - | **-** |
| Transfer of HRA Settlement Receipts to UCR | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | (17.9) | - | - | - | - | **(17.9)** | **-** | - | **-** |
| Capitalisation under Section 16(2)(b) directive | - | - | 2.2 | - | - | - | - | **2.2** | **-** | - | **-** |
| Loan receipts transferred to Capital Adjustment Account | - | - | 8.0 | - | - | - | - | **8.0** | **-** | - | **-** |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | **0.9** | **-** | **37.7** | **2.1** | **-** | **18.9** | **11.8** | **71.4** | **-** | **-** | **-** |
| | | | | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Transfers to/from other Earmarked Reserves | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| | | | | | | | | | | | **-** |
| **Balance Carried Forward** | **4.0** | **(8.0)** | **(431.6)** | **1.1** | **5.3** | **624.6** | **(140.5)** | **54.8** | **(47.0)** | **26.6** | ***(20.4)*** |

## 2018-2019 Part 1 – Usable Reserves and Reserves of Subsidiary

| | General Fund Balance | General Fund Earmarked Reserves | Total General Fund Balance | HRA Balance | 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** | **(10.0)** | **(55.8)** | **(65.8)** | **(7.0)** | **(0.4)** | **(4.2)** | **(3.4)** | **(80.8)** |
| **Prior period adjustment** | | | | | | | | |
| **As restated** | **(10.0)** | **(55.8)** | **(65.8)** | **(7.0)** | **(0.4)** | **(4.2)** | **(3.4)** | **(80.8)** |
| | | | **-** | | | | | |
| **(Surplus) or Deficit on Provision of Services** | **92.7** | **-** | **92.7** | **(6.1)** | **-** | **-** | **-** | **86.6** |
| | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | |
| Revaluations - Gains and losses | **-** | - | **-** | - | - | - | - | **-** |
| Gains on Available-for-Sale Financial Assets | **-** | - | **-** | - | - | - | - | **-** |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | **-** | - | **-** | - | - | - | - | **-** |
| Re-measurements in the pensions reserve | **-** | - | **-** | - | - | - | - | **-** |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | **-** | - | **-** | - | - | - | - | **-** |
| **Total Comprehensive Income and Expenditure** | **92.7** | **-** | **92.7** | **(6.1)** | **-** | **-** | **-** | **86.6** |
| | | | | | | | | |
| **Net Increase/Decrease before Transfers & Other Movements** | **92.7** | **-** | **92.7** | **(6.1)** | **-** | **-** | **-** | **86.6** |
| | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | (63.9) | - | **(63.9)** | (13.8) | (17.9) | - | - | **(95.6)** |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | **-** | - | - | - | - | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| HRA Share of Contribution to Pension Reserve | - | - | **-** | - | - | - | - | **-** |
| Movement in the market value of Investment Properties & Council Dwellings | 6.0 | - | **6.0** | (1.2) | - | - | - | **4.8** |
| Revenue Expenditure Funded from Capital under Statute | (19.1) | - | **(19.1)** | - | - | - | - | **(19.1)** |
| Net (Gain)/Loss on sale of non-current assets (net book value of assets) | (45.1) | - | **(45.1)** | (11.6) | - | - | - | **(56.7)** |
| Net (Gain)/Loss on sale of non-current assets (disposal proceeds) | 3.5 | - | **3.5** | 12.0 | - | (15.5) | - | **-** |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | 0.1 | - | **0.1** | - | - | - | - | **0.1** |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | (1.4) | - | **(1.4)** | - | - | - | - | **(1.4)** |
| Net Charges made for retirement benefits in accordance with IAS 19 | (62.8) | - | **(62.8)** | - | - | - | - | **(62.8)** |
| Capital Expenditure charged in the year to the General Fund | 1.4 | - | **1.4** | - | - | - | - | **1.4** |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | (2.2) | - | **(2.2)** | - | - | 2.2 | - | **-** |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | 36.6 | - | **36.6** | - | - | - | - | **36.6** |
| Transfers of HRA Balance | - | - | **-** | - | - | - | - | **-** |
| Capital grants and contributions unapplied credited to CIES | 37.2 | - | **37.2** | - | - | - | (37.2) | **-** |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | **-** | - | - | - | 36.2 | **36.2** |
| 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 | 0.5 | - | **0.5** | - | - | - | - | **0.5** |
| Capital Expenditure Financed from Usable Capital Receipts | - | - | **-** | - | - | 10.8 | - | **10.8** |
| Other income that cannot be credited to the General Fund | 0.4 | - | **0.4** | - | - | - | - | **0.4** |
| Revenue provision for the repayment of debt | 17.2 | - | **17.2** | 20.7 | - | - | - | **37.9** |
| Transfer of HRA Settlement Receipts to UCR | - | - | **-** | - | - | - | - | **-** |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | **-** | - | 17.5 | - | - | **17.5** |
| Capitalisation under Section 16(2)(b) directive | (3.7) | - | **(3.7)** | - | - | - | - | **(3.7)** |
| Loan receipts transferred to Capital Adjustment Account | | - | **-** | - | - | (2.2) | - | **(2.2)** |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | **(95.3)** | **-** | **(95.3)** | **6.1** | **(0.4)** | **(4.7)** | **(1.0)** | **(95.3)** |
| | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | - | - | **-** | - | - | - | - | **-** |
| Transfers to/from other Earmarked Reserves | 2.9 | (2.9) | **-** | - | - | - | - | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| **Balance Carried Forward** | **(10.0)** | **(58.6)** | **(68.6)** | **(6.9)** | **(0.8)** | **(8.9)** | **(4.4)** | **(89.8)** |

## 2018-2019 Part 2 – Unusable Reserves

| | Short-term Accumulating Compensated Absences Account | Available-for-sale Financial Instruments Reserve | Capital Adjustment Account | Collection Fund Adjustment Account | Financial Instruments Adjustment Account | Pensions Reserve | Revaluation Reserve | Total Unusable Reserves | TOTAL (Council) | *Reserves of Subsidiaries* | *TOTAL (Group)* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | *£m* | *£m* |
| **Balance Brought Forward** | **3.6** | **(17.2)** | **(438.0)** | **(2.4)** | **5.3** | **640.7** | **(177.0)** | **15.0** | **(65.7)** | ***27.0*** | ***(38.7)*** |
| | - | - | (85.3) | - | - | - | - | **(85.3)** | **(85.3)** | ***(0.8)*** | ***(86.1)*** |
| **As restated** | **3.6** | **(17.2)** | **(523.3)** | **(2.4)** | **5.3** | **640.7** | **(177.0)** | **(70.3)** | **(151.0)** | ***26.2*** | ***(124.8)*** |
| | | | | | | | | | | | |
| **(Surplus) or Deficit on Provision of Services** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **86.6** | ***5.8*** | ***92.4*** |
| | | | | | | | | | | | |
| **Other Comprehensive Income and Expenditure** | | | | | | | | | | | |
| Revaluations - Gains and losses | - | - | - | - | - | | 4.8 | **4.8** | **4.8** | - | ***4.8*** |
| Gains on Available-for-Sale Financial Assets | - | (0.1) | - | - | - | | | **(0.1)** | **(0.1)** | - | ***(0.1)*** |
| Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition | - | - | - | - | - | | | **-** | **-** | - | **-** |
| Re-measurements in the pensions reserve | - | - | - | - | - | (47.8) | | **(47.8)** | **(47.8)** | *(3.3)* | ***(51.1)*** |
| Share of other CI&E of Associates & Joint Ventures (Group a/cs only) | - | - | - | - | - | | | **-** | **-** | - | **-** |
| **Total Comprehensive Income and Expenditure** | **-** | **(0.1)** | **-** | **-** | **-** | **(47.8)** | **4.8** | **(43.1)** | **43.5** | **2.5** | ***46.0*** |
| | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Increase/Decrease before Transfers & Other Movements** | **-** | **(0.1)** | **-** | **-** | **-** | **(47.8)** | **4.8** | **(43.1)** | **43.5** | **2.5** | ***46.0*** |
| | | | | | | | | | | | |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | | | | | | | | | | | |
| Depreciation, amortisation, impairment and revaluation of non-current assets | - | - | 92.6 | - | - | - | 3.2 | **95.8** | **-** | - | **-** |
| Difference between HRA depreciation and Major Repairs Allowance | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| HRA Share of Contribution to Pension Reserve | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Movement in the market value of Investment Properties & Council Dwellings | - | - | (4.8) | - | - | - | - | **(4.8)** | **-** | - | **-** |
| Revenue Expenditure Funded from Capital under Statute | - | - | 19.1 | - | - | - | - | **19.1** | **-** | - | **-** |
| Net (Gain)/Loss on sale of non-current assets (net book value of assets) | - | - | 45.4 | - | - | - | 11.3 | **56.7** | **-** | - | **-** |
| Net (Gain)/Loss on sale of non-current assets (disposal proceeds) | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax | - | - | - | 1.4 | - | - | - | **1.4** | **-** | - | **-** |
| Net Charges made for retirement benefits in accordance with IAS 19 | - | - | - | - | - | 62.8 | - | **62.8** | **-** | - | **-** |
| Capital Expenditure charged in the year to the General Fund | - | - | (1.4) | - | - | - | - | **(1.4)** | **-** | - | **-** |
| Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | - | - | - | - | - | (36.6) | - | **(36.6)** | **-** | - | **-** |
| Transfers of HRA Balance | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Capital grants and contributions unapplied credited to CIES | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account | - | - | (36.2) | - | - | - | - | **(36.2)** | **-** | - | **-** |
| 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 | (0.5) | - | - | - | - | - | - | **(0.5)** | **-** | - | **-** |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital Expenditure Financed from Usable Capital Receipts | - | - | (10.8) | - | - | - | - | **(10.8)** | **-** | - | **-** |
| Other income that cannot be credited to the General Fund | - | - | (0.4) | - | - | - | - | **(0.4)** | **-** | - | **-** |
| Revenue provision for the repayment of debt | - | - | (37.9) | - | - | - | - | **(37.9)** | **-** | - | **-** |
| Transfer of HRA Settlement Receipts to UCR | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Use of Major Repairs Allowance to Finance Capital Spend | - | - | (17.5) | - | - | - | - | **(17.5)** | **-** | - | **-** |
| Capitalisation under Section 16(2)(b) directive | - | - | 3.7 | - | - | - | - | **3.7** | **-** | - | **-** |
| Loan receipts transferred to Capital Adjustment Account | - | - | 2.2 | - | - | - | - | **2.2** | **-** | - | **-** |
| **Adjustments between Accounting Basis & Funding Basis under Regulations** | **(0.5)** | **-** | **54.0** | **1.4** | **-** | **26.2** | **14.5** | **95.6** | **-** | **-** | **-** |
| | | | | | | | | | | | |
| Group contributions to/from Reserves (Group a/cs only) | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| Transfers to/from other Earmarked Reserves | - | - | - | - | - | - | - | **-** | **-** | - | **-** |
| | | | | | | | | | | | |
| **Balance Carried Forward** | **3.1** | **(17.3)** | **(469.3)** | **(1.0)** | **5.3** | **619.1** | **(157.7)** | **(17.8)** | **(107.5)** | **28.7** | **(78.8)** |



## 13B Description of Reserves

### Usable Reserves

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

| | |
|---|---|
| Housing Revenue Account Balance | The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years. |
| General Fund Earmarked Reserves | General Fund Earmarked Reserves represent amounts that the Council has chosen to set aside to fund specific items of expenditure in the future. The most significant earmarked reserves are the Efficiency Reserve (£5.4 million), the Budget Contingency Reserve (£3.6 million), the Job Evaluation Reserve (£1.0 million) and the Budget Strategy Reserve (£7.6 million). |

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

**Unusable Reserves**

| | |
|---|---|
| Revaluation Reserve | The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised. The reserve |

| | |
|---|---|
| | only contains revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. |
| Available-for-Sale Financial Instruments Reserve | The Available-for-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised. |
| Capital Adjustment Account | The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Properties. It also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. |
| Financial Instruments Adjustment Account | The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. |
| Pensions Reserve | The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. |

| | |
|---|---|
| Collection Fund Adjustment Account | The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Business Rates income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax and Business Rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. |
| Short-Term Accumulating Compensated Absences Account | The Short-term Accumulating Compensated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example annual leave entitlement not yet used at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. |

**13C Movement in Specific Earmarked Reserves**

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

| Balance at 31 March 2018 £m | Transfers Out £m | Transfers To £m | Balance at 31 March 2019 £m | | Balance at 31 March 2019 £m | Transfers Out £m | Transfers To £m | Balance at 31 March 2020 £m |
|---|---|---|---|---|---|---|---|---|
| | | | | **Specific Earmarked Reserves** | | | | |
| (6.1) | 0.4 | (0.8) | (6.5) | Efficiency Reserve (Corporate) | (6.5) | 1.1 | - | (5.4) |
| (3.4) | 0.6 | (0.2) | (3.0) | Budget Contingency Reserve (Corporate) | (3.0) | 3.8 | (4.4) | (3.6) |
| (1.7) | - | - | (1.7) | Job Evaluation Reserve (Corporate) | (1.7) | 0.7 | - | (1.0) |
| (9.1) | - | - | (9.1) | Budget Strategy Reserve (Corporate) | (9.1) | 1.5 | - | (7.6) |
| | | | | **Other Earmarked Reserves** | | | | |
| (1.3) | - | (3.7) | (5.0) | Adult Services | (5.0) | 4.3 | (0.5) | (1.2) |
| (0.2) | - | (0.1) | (0.3) | Children's Services | (0.3) | - | (0.9) | (1.2) |
| (0.3) | 0.1 | (0.1) | (0.3) | City Assets and Housing | (0.3) | - | - | (0.3) |
| (3.1) | 0.9 | (1.0) | (3.2) | City Environment | (3.2) | 1.1 | (2.0) | (4.1) |
| (23.1) | 7.8 | (3.7) | (19.0) | Corporate | (19.0) | 5.6 | (16.1) | (29.5) |
| - | - | (2.2) | (2.2) | Finance | (2.2) | - | - | (2.2) |
| (0.5) | 0.4 | (1.2) | (1.3) | Public Health | (1.3) | 0.7 | - | (0.6) |
| (1.8) | 0.2 | (0.4) | (2.0) | Regeneration | (2.0) | 0.2 | - | (1.8) |
| (5.1) | 3.7 | (3.6) | (5.0) | Schools | (5.0) | 1.3 | (2.4) | (6.1) |
| **(55.7)** | **14.1** | **(17.0)** | **(58.6)** | **Total Earmarked Reserve** | **(58.6)** | **20.3** | **(26.3)** | **(64.6)** |

## Note 14 Notes to the Cash Flow Statement

### 14A Adjustment for Non-Cash Movements

| Restated 2018-2019 Council £m | Restated 2018-2019 *Group £m* | | 2019-2020 Council £m | 2019-2020 *Group £m* |
|---|---|---|---|---|
| 0.2 | *5.6* | (Decrease)/Increase in Inventories | (0.1) | *18.0* |
| 14.2 | *9.3* | (Decrease)/Increase in Current Receivables | 29.8 | *33.3* |
| (1.6) | *(0.1)* | Decrease/(Increase) in Current Payables | (22.7) | *(45.7)* |
| (55.6) | *(55.6)* | Depreciation, Amortisation and Impairment of Non-Current Assets | (143.4) | *(143.4)* |
| (35.1) | *(35.1)* | Revaluations of Non-Current Assets | 35.5 | *35.5* |
| (56.7) | *(56.7)* | Net Book Value on Disposal of Property, Plant and Equipment, Investment Property and Intangible Assets | (22.2) | *(22.2)* |
| (62.8) | *(72.5)* | Net Charges made for retirement benefits in accordance with IAS 19 | (58.1) | *(66.0)* |
| 61.1 | *65.0* | Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners | 14.7 | *18.6* |
| 5.2 | *5.2* | Net Movement in Provisions | (0.6) | *(0.6)* |
| - | - | Non-Current Borrowing revaluation amounts | - | - |
| **(131.1)** | ***(134.9)*** | | **(167.3)** | ***(172.5)*** |

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

| 2018-2019 Council £m | 2018-2019 *Group £m* | | 2019-2020 Council £m | 2019-2020 *Group £m* |
|---|---|---|---|---|
| 15.5 | *15.5* | Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets | *21.2* | *21.2* |
| 37.2 | *37.2* | Capital grants received | *42.7* | *42.7* |
| **52.7** | ***52.7*** | | **63.9** | ***63.9*** |

### 14C Net Cash Flows from Operating Activities

The cash flows from operating activities include the following items:

| 2018-2019 | | | 2019-2020 | |
|---|---|---|---|---|
| **Council £m** | ***Group £m*** | | **Council £m** | ***Group £m*** |
| 37.0 | *37.4* | Interest paid | 37.2 | *38.6* |
| (0.9) | *(0.9)* | Interest received | (1.9) | *(9.3)* |
| (1.3) | *(1.3)* | Dividends received | (1.3) | *(1.3)* |
| **34.8** | ***35.2*** | | **34.0** | ***28.0*** |



### Note 15 Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019-2020 financial year and its position at 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 and the Service Reporting Code of Practice 2019-2020, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of noncurrent assets and financial instruments.

### 2. Group Accounts

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

## 3. Recognition of Income and Expenditure

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

- Revenue from the contracts with service recipients whether for the provision of goods or services is recognised when the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Manual Accruals are only processed for amounts of £10,000 or more except where the expenditure is by schools or funded directly from external grants.

The above is in accordance with IFRS 15 'Revenue from Contracts with Customers' which became effective last financial year, superseding IAS 18 'Revenue'. IFRS 15 applies to all contracts with customers (apart from some exceptions which fall under the scope of other accounting standards e.g. leases, financial instruments, insurance contracts). The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The key difference between IFRS 15 and IAS 18 is that whereas IAS 18 focused on risks and rewards of ownership, IFRS 15 focuses on the satisfaction of performance obligations; IFRS 15 provides a standardised five-step model to recognise all types of revenue earned from customer contracts, whereas IAS 18 considers different recognition criteria for different types of income received. In transitioning from IAS 18 to IFRS 15, the Council has considered all of its revenue streams (including any potential staged receipts and receipts spanning financial years) across the group, however the Council does not believe there are any relevant revenue streams that are material.

## 4. Accounting for Council Tax

- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Authority's General Fund or paid out from the Collection Fund to the major preceptors. The amount credited to the General Fund under statute is an Authority's precept or demand for the year, plus or minus the Authority's share of the surplus/deficit on the Collection Fund for the previous year.

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

**5. Accounting for Non-Domestic Rates (NDR)**

The NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors (excluding police bodies) and the Government. The amount credited to the General Fund under statute is the Authority's estimated share of NDR for the year from the National Non-Domestic Rates (NNDR) 1 return.

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

**6. 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.

## 7. 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.

## 8. 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.



## 9. 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.

## 10. Employee Benefits

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

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

**Post-Employment Benefits -** Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;
- The NHS Pension Scheme administered by EA Finance NHS Pensions; and
- The Local Government Pensions Scheme administered by West Midlands Pension Fund.

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

**The Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefits scheme. The liabilities of the West Midlands Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the redemption yields on AA-rated corporate bonds with a term corresponding to the term of the liabilities. The assets of West Midlands Pension Fund attributable to the Council are included in the Balance Sheet at their fair value, which varies depending on the type of asset:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate;
- Unitised securities – current bid price;
- Property – market value.

The change in the net pensions' liability is analysed into the following components:

Service cost comprising:

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

Changes in valuations comprising:

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

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

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

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



## 11. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period, 31 March 2020, 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.

## 12. 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are two main classes of financial assets measured at;

- Amortised costs
- Fair Value through Other Comprehensive Income (FVOCI)

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



**Financial Assets Measured at Amortised Cost**

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 most of the financial assets held by the authority, this means that 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. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Expected Credit Loss Model**

The Council recognises expected credit losses on all of its financial assets (except where the counterparty is central government or a local authority) held at amortised cost or FVOCI, either on a 12-month or lifetime basis. A simplified approach has been applied to trade receivables, finance lease receivables and operating lease receivables, whereby impairment losses are automatically based on lifetime expected credit losses. Impairment losses on loans and financial guarantees are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

**Financial Assets Measured at Fair Value through Other Comprehensive Income**

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in other comprehensive income and expenditure (and taken to the Financial Instruments Revaluation Reserve), except for impairment gains or losses, until the financial asset is derecognised. The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices - independent appraisal of company valuations

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

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

When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from reserves to Surplus or Deficit on the Provision of Services as a reclassification adjustment.

Under accounting standard IFRS 9 ‘Financial Instruments’, all assets previously held within the Available for Sale Financial Instruments reserve have been elected as Fair Value through Other Comprehensive Income. As a result of this all balances held within the reserve have been transferred into the newly created Financial Instruments Revaluation Reserve.

## 13. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line, attributable Revenue Grants and Contributions, or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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



## 14. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Expenditure on the development of websites is not capitalised if the websites are solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

## 15. Interests in Companies and Other Entities

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

**Investments in limited by guarantee companies -** The Council has investments in companies limited by guarantee, for example ConnectEd Partnership, Black Country Consortium, Wolverhampton Grand Theatre, Wolverhampton Homes. These investments are valued at cost in the Council's accounts. Income and expenditure transactions are recognised in the Council's financial statements.

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

Therefore, schools' transactions, cash flows and balances are recognised in each of the financial statements of the Council as if they were the transactions, cash flows and balances of the Council.

## 16. Inventories

Inventories held by the Council relate to consumables and are included on the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average costing formula. Long-term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

The inventories held by the Group predominantly relate to properties in development stage and are stated at the lower of cost and estimated selling price less costs to complete and sell which is equivalent to the net realisable value. Cost comprises direct materials and, where applicable, directly attributable expenditure in relation to the acquisition and development of the properties. At each reporting date, an assessment is made

for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

### 17. Investment Property

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

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

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



### 18. Jointly Controlled Arrangements

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

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

## 19. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

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

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

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

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

**The Council as Lessee: Operating leases -** Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments e.g. there is a rent-free period at the commencement of the lease.

**The Council as Lessor: Finance Leases -** Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the

Balance Sheet (whether Property, Plant and Equipment, or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain representing the Council's net investment in the lease is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received) – and finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is transferred out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is transferred out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

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

## 20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received.

## 21. Property, Plant and Equipment

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

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

**Measurement -** Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, subject to a de-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 – current value, determined using the basis of existing use value for social housing (EUV-SH);
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the Council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value;
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost which is used as an estimate of current value;
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- All other assets - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated on the following bases:

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

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

**Disposals and Non-Current Assets Held for Sale**



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

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

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

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

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

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

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

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

The original recognition of these assets at 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 five elements:

- **Fair value of the services received during the year -** charged to the relevant service in the Comprehensive Income and Expenditure Statement;
- **Finance cost -** an interest charge on the outstanding Balance Sheet liability, charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **Contingent rent -** increases in the amount to be paid for the property arising during the contract, charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- **Payment towards liability -** applied to write down the Balance Sheet liability to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **Lifecycle replacement costs -** a proportion of the amount's payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

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

## 23. Provisions, Contingent Liabilities and Contingent Assets

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

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

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



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

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

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

## 24. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure, to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of 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, local taxation, retirement and employee benefits, and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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

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

### 26. Value Added Tax

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

### 27. Pension Fund Accounts

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

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

### 28. Heritage Assets

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

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

## 29. Pension Guarantees

The Council has provided guarantees to a number of organisations at the point they were admitted to West Midlands Pension Fund, to fund any potential pension liability. These guarantees are treated as Insurance Contracts in accordance with IFRS 4, rather than financial guarantees under IFRS 9, as the Council considers that the non-financial risks covered by the guarantees (for example regarding mortality rates and demographics) are more significant than the financial risks. Each year, the Council assesses the probability of the guarantees being called using various factors: the pension liability is derived from the triennial valuation or the IAS19 statement (if available) and risk of failure of the business is derived from Dun and Bradstreet Business Failure Scores. If, by multiplying the pension liability by the risk of failure, a significant potential liability arises, it is recognised in the Comprehensive Income and Expenditure Statement.

## 30. Pooled Budgets

The Council takes part in two pooled budget schemes with Wolverhampton Clinical Commissioning Group (CCG). The first scheme relates to the integrated service for Child Placements with External Agencies for children with social care, education and health needs. The Council incurs the expenditure and receives a contribution from CCG towards the costs. The second scheme relates to the commissioning of health and social care services under the Better Care Fund (BCF). Again, the Council incurs the expenditure and receives funding through a contribution from CCG and local government grants. All income and expenditure are recorded in the Comprehensive Income and Expenditure Statement.

## 31. Trust Funds

The Council acts as trustee for a number of historic trust funds. These funds are not recorded on the balance sheet as they are not owned by the Council.

At the end of each financial year, the trust funds on the ledger are reviewed and appropriate accounting entries are made. A separate note (Note 12), is included within the financial statements showing the income, expenditure and balances of the trust funds for this financial year and the prior financial year.

A number of the funds are held in the Council's bank account and each year the interest is calculated and applied to the account. Any external interest received by the Council is added to the individual funds on the ledger.

## Note 15A Changes in Accounting Policies and Accounting Estimates from Previous Year

None

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

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

### Group Accounts

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

WV Living was formed as a wholly owned subsidiary of the Council in 2016-2017. As the impact on the group accounts are considered by the Council, to be material they have been consolidated in the Group Accounts. During 2019-2020 the company has incurred expenditure of £29.4 million, of which £1.4 million was borrowing costs (2018-2019: £8.4 million) and has stock assets of £26.0 million as at 31 March 2020 (£7.7 million at 31 March 2019). £0.9 million of expenditure relates to transactions with the Council (2018-2019: £0.7 million). Turnover in 2019-2020 was £8.7 million (2018-2019: £2.5 million), £2.2 million of this being transactions with the Council (2018-2019: £0.2 million).

Yoo Recruit Ltd was formed as a wholly owned subsidiary of the Council in 2013-2014. The turnover of this company for 2019-2020 was approximately £10.1 million, of which £9.4 million was derived from the Council, with a net income after tax of £19,193. As the impact on the group accounts are considered, by the Council, to be not material they have not been consolidated in the Group Accounts.

The Council is the main funder of Wolverhampton Grand Theatre (1982) Limited and has the power to appoint and remove directors of the company. Although the Council does have significant influence, as the transactions and balances of this company are considered, by the Council, to not be material, they have not been consolidated in the Group Accounts.

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

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

**Private Finance Initiative (PFI) Contracts**

The Council provides services, via private sector partners, under a PFI or PFI-type contracts in four areas: The Waste Disposal Facility, the Bentley Bridge Leisure Centre, the Highfields and Penn Fields School contract and the St. Matthias School and Heath Park Academy contract. In the Waste Disposal Facility, the Bentley Bridge Leisure Centre and the Highfields and Penn Fields Schools contracts, it has been determined that the Council controls the use of the relevant non-current assets and, as a result the relevant assets and corresponding liabilities were recognised in the Council's balance sheet. Subsequent to the commencement of the Highfields and Penn Fields schools contract Highfields School converted to an Academy, in the 2014-2015 financial year, and as the Council no longer has control over the asset and the services to be provided it was determined by the Council that the asset for Highfields School should be de-recognised. The contract for St. Matthias School and Heath Park Academy commenced during 20152016. Both assets have been initially recognised in the Council's Balance Sheet, however, as Heath Park Academy is an existing Academy and the Council has no control over the asset and services to be provided the asset for this school has subsequently been de-recognised in the Council's Balance Sheet. St. Matthias School is still under the control of the Council and, accordingly, this asset remains on the Council's Balance Sheet. In the cases of both academies de-recognised the PFI liabilities remain on the Council's balance sheet, being funded by capital grants from central government and contributions from the Academies as detailed in note 10F.



**Business Rates**

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

**Schools**

Schools within Wolverhampton are managed in a variety of ways including Council Community Schools, Voluntary Aided, Voluntary Controlled and Academies. The Council has reviewed each school on a case by case basis and considered the extent to which the Council has control over the school in respect to the employment of staff, governance arrangements, maintenance of the land and buildings and admissions, in order to assign them to one of the categories below.

Academy Schools – Academies are entirely separate entities to the Council and therefore the Council has no control over the operation of the school. Land and buildings are transferred to the academies through a standard 125-year lease. It is anticipated that these arrangements will continue and, therefore, substantially all associated risks and rewards of ownership are transferred. For Academy Schools the assets and liabilities are not consolidated into the City Council's balance sheet and the non-current assets are derecognised.

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

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



**Note 15C Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

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

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Pensions Net Liability**

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

| Variation to Assumptions | Impact on Net Liability | |
|---|---|---|
| | Council | *Group* |
| Discount Rate 0.1% higher | Decrease of £32.8 million | *Decrease of £36.9 million* |
| Rate of Inflation 0.1% p.a. higher | Increase of £31.0 million | *Increase of £34.7 million* |
| Rate of increase in salaries 0.1% p.a. higher | Increase of £2.6 million | *Increase of £3.3 million* |
| Life expectancy of scheme members 1 year higher | Increase of £76.9 million | *Increase of £84.1 million* |

As a result of the impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties are reported on the basis of material valuation uncertainty. The Council's share of these assets is £67.6 million.



**Property, Plant and Equipment**

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

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

1% fluctuation in council dwellings and other land and buildings values would amount to a £12.8m movement in Property Plant and Equipment balance shown on the Balance Sheet.

*Material valuation uncertainty due to Novel Coronavirus (Covid–19)*

The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in many sectors. As at the valuation date, our valuers consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base judgement. Their valuations are therefore reported on the basis of "material valuation uncertainty"' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these

valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, the Council will be keeping the valuation of the portfolio under frequent review.

A sensitivity analysis has been carried out on property values to determine potential impact if there were variations in asset values based on a global 1% or 5% change in value with summary shown in table below

| | Assets value as at 31 March 2020 | Change in Valuation | |
|---|---|---|---|
| | | 1% | 5% |
| | £m | £m | £m |
| Council Dwellings | 828.7 | 8.3 | 41.4 |
| Other Land and Buildings | 429.4 | 4.3 | 21.5 |
| Surplus Assets | 6.5 | 0.1 | 0.3 |
| Investment Properties | 33.8 | 0.3 | 1.7 |
| | **828.7** | **8.3** | **41.4** |



**Fair Value of Assets and Liabilities**

The Council has an investment in Birmingham Airport Holdings Ltd whose valuation has reduced in the Balance Sheet as at 31 March in line with the global conditions as a result of Covid-19.

Should the valuation continue to reduce through 2020-2021, the balance of Long-Term Investments would be impacted meaning there may be a material reduction in the value on the Balance Sheet as at 31 March 2021.

**Arrears**

At 31 March 2020, the Council had a receivables balance, before the expected credit loss allowance, of £82.3 million. An allowance has been made against these receivables based on the age of the debt outstanding, historical collection rates and consideration of future collection rates. Given the current economic climate surrounding Covid-19, the Council undertook extra in-depth analysis, both at category level (e.g. trade debtors, care, housing benefits) and at individual debtor level, to ensure a prudent allowance was reached. As a result, the expected credit loss allowance for 2019-20 is £29.8 million (2018-2019: £25.9 million) – no special provision for Covid-19 has been applied to the Council's general allowance, due to insufficient data with which to make a reasonable estimate of any potential impact, however a 10% allowance has been applied to the Collection Fund allowance, as this is considered to be the area most likely to be affected.

Given the uncertainty and insufficient data, it is not certain that such an allowance would be sufficient. If collection rates were to deteriorate an increase in the amount of the expected credit loss allowance would be required.



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

Accounting changes that are introduced by the 2020-2021 code are:

- **Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures**
  Clarifies that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

- **Annual Improvements to IFRS Standards 2015–2017 Cycle**
  Makes amendments to the following standards:
  - IFRS 3 and IFRS 11 – The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  - IAS 12 – The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
  - IAS 23 – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

- **Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement**

  The amendments are:

  - If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
  - In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The council will review these during 2020-2021 and implement any necessary changes.

**Note 15E Deferral of the Implementation of IFRS 16 – Leases**

The IASB published IFRS 16 *Leases* in January 2016 with an effective date of 1 January 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments. In light of Covid-19 pressures, the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) has agreed to defer the implementation of IFRS 16 for one year. This will mean the effective date for implementation is now 1 April 2021. The Council has already undertaken extensive work in preparation for this change and estimates that assets and liabilities on the balance sheet will increase by c.£2.8 million. There will also be a c.£24,000 increase on the CIES as rent expenses are replaced with depreciation and interest expense.

## Housing Revenue Account Income and Expenditure Statement

| Restated 2018-2019 £m | | Note | 2019-2020 £m |
|---|---|---|---|
| (88.8) | Gross Rents – Dwellings | | (88.8) |
| (0.8) | Gross Rents - Non-Dwellings | | (0.6) |
| (5.8) | Charges to Tenants for Services and Facilities | | (6.3) |
| - | Contributions | | - |
| **(95.4)** | **Total Income** | | **(95.6)** |
| 25.4 | Repairs and Maintenance | | 25.4 |
| 19.4 | Supervision and Management | | 20.0 |
| 0.3 | Rents, Rates and Taxes | | 0.4 |
| 1.4 | Increase in Allowance for Bad Debts | | 1.3 |
| - | Contribution to Capital Financing | | 0.5 |
| 17.9 | Depreciation of Property, Plant and Equipment | H1 | 18.3 |
| 14.3 | Revaluation/impairment of Property, Plant and Equipment | H2 | 22.1 |
| **78.7** | **Total Expenditure** | | **88.1** |
| **(16.7)** | **Net Cost of HRA Services as included in Council Comprehensive Income and Expenditure Statement** | | **(7.5)** |
| 0.2 | HRA Share of Corporate and Democratic Core | | 0.2 |
| **(16.5)** | **Net Cost of HRA Services** | | **(7.3)** |
| - | Sums Directed by the Secretary of State that are Expenditure in Accordance with the Code | | - |
| (0.4) | (Gain) on Sale of Property, Plant and Equipment | | (1.8) |
| - | (Gain) on the Fair Value of Investment Assets | | - |
| 10.3 | Interest Payable | | 9.7 |
| (0.1) | Interest and Investment Income | | (0.1) |
| **(6.7)** | **(Surplus)/Deficit for the Year** | | **0.5** |

## Movement on the Housing Revenue Account Balance Statement

| Restated 2018-2019 £m | | Note | 2019-2020 £m |
|---|---|---|---|
| **(7.0)** | **Opening HRA Balance** | | **(7.0)** |
| | | | |
| | **(Increase)/Decrease in the HRA balance for the year analysed between:** | | |
| (6.7) | - (Surplus)/Deficit for the year on the Income and Expenditure Account | | 0.5 |
| 6.7 | - Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for the year | H3 | (0.5) |
| **0.0** | **(Increase)/Decrease in the HRA balance for the year** | | **0.0** |
| | | | |
| **(7.0)** | **Closing HRA Balance** | | **(7.0)** |



## Notes to the Housing Revenue Account Statements

### Note H1 – Depreciation

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 17.9 | Council Dwellings | 17.9 |
| 0.4 | Other Land and Buildings | 0.4 |
| - | Vehicles, Plant, Furniture and Equipment | - |
| **17.9** | **Total Depreciation Charge for the Year** | **18.3** |

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

**Note H2 – Revaluation**

| Restated 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 14.6 | Council Dwellings | 20.7 |
| (0.2) | Other Land and Buildings | - |
| **14.4** | **Total Revaluation/Impairment Charge for the Year** | **20.7** |

The revaluation results from the five yearly stock valuation exercise which reflects changes in value due to local market conditions and is adjusted for the existing use value (social housing).



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

| Restated 2018-2019 £m | | Note | 2019-2020 £m |
|---|---|---|---|
| **6.7** | **Net additional amount required to be debited or credited to the HRA Balance** | | **(0.5)** |
| | Comprising: | | |
| | **Amounts included in the Income and Expenditure Account but not in the HRA Balance** | | |
| (11.6) | Net Gain on Sale of Property, Plant and Equipment | | (9.9) |
| (14.4) | Impairment/revaluation of Property, Plant and Equipment | H2 | (22.1) |
| - | Capital Expenditure Funded by the HRA | | (0.1) |
| 12.0 | Net Gain / (Loss) on the Fair Value of Investment Assets | | 11.7 |
| **(14.0)** | **Sub Total** | | **(20.4)** |
| | **Amounts not in the Income and Expenditure Account but included in the HRA Balance** | | |

| | | | |
|---|---|---|---|
| - | HRA Share of Contribution to Pension Reserve | H4 | - |
| - | Adjustment for Premiums and Discounts | | - |
| 20.7 | Amount Set Aside for the Repayment of Debt | | 19.9 |
| - | Transfer to/(from) Earmarked Reserves | | - |
| **20.7** | **Sub Total** | | **19.9** |
| **6.7** | **Total** | | **(0.5)** |

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

Retirement benefits are offered to employees by the Council as part of the terms and conditions of employment. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments. This commitment needs to be disclosed at the time that employees earn their future entitlement. The pension reserve reflects the projected shortfall in the amount which may need to be provided in the future to current employees of the Housing Revenue Account. Further details on this may be found in Note 9 to the Core Financial Statements.



**Note H5 – Housing Stock**

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

| 31 March 2019 | | 31 March 2020 |
|---|---|---|
| 4,827 | Low Rise Flats | 4,843 |
| 2,882 | Medium Rise Flats | 2,881 |
| 2,109 | High Rise Flats | 2,115 |
| 12,177 | Houses and Bungalows | 12,087 |
| **21,995** | **Total Dwellings Owned by the Council** | **21,926** |
| 14 | Homeless Dwellings (Leased) | 14 |
| **22,009** | | **21,940** |

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

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

| Restated 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 821.3 | Council Dwellings | 828.7 |
| 11.8 | Other Land and Buildings | 15.2 |
| - | Vehicles, Plant, Furniture and Equipment | - |
| - | Intangible Assets | - |
| **833.1** | **Total Property, Plant and Equipment** | **843.9** |



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

The vacant possession value of the stock of dwellings at 31 March 2020 (at 1 April 2016 prices) amounted to £1,858.9 million (31 March 2019: £1,858.9 million). The value of dwellings shown on the Balance Sheet is the existing use value (social housing), which is 40% of the vacant possession value (this ratio is set by the Government). The difference between the two values demonstrates the economic cost to Government of providing Council housing at less than open market rents.

**Note H8 – Capital**

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Sources of Funding** | |
| (19.2) | Borrowing | (27.4) |
| (4.5) | Usable Capital Receipts | (12.1) |
| (17.5) | Major Repairs Reserve | (17.9) |
| (1.6) | Government and EU Grants | (0.1) |
| - | Financed from revenue account | (0.5) |
| - | Other Contributions | (0.3) |
| **(42.8)** | **Total Capital Expenditure** | **(58.3)** |



Capital receipts generated during 2019-2020 from the disposal of HRA assets are detailed in the following table.

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| (11.6) | Sale of Council Houses (including Right-to-Buy) | (11.0) |
| (0.4) | Sale of Other Land and Buildings | (0.6) |
| - | Repaid Discounts | (0.1) |
| **(12.0)** | **Total Capital Receipts** | **(11.7)** |

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 2.2 | Paid over to Government | 2.2 |
| (14.2) | Available to Finance Capital Expenditure | (13.9) |
| **(12.0)** | **Total Capital Receipts** | **(11.7)** |

**Note H9 – Rent Arrears**

During 2019-2020, there was an increase in total rent arrears of £0.5 million. Within total rent arrears, current tenants' arrears as a proportion of net rental income was 1.9%, 0.6% higher than in 2018-2019. The comparative total figures are shown in the following table.



| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 1.8 | Current Tenants | 2.4 |
| 0.8 | Former Tenants | 1.3 |
| **2.6** | **Total Arrears** | **3.7** |

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| **1.9** | **Allowance for Bad and Doubtful Debts Brought Forward** | **2.4** |
| (0.9) | Amounts Written Off during the Year | (0.5) |
| 1.4 | Increase in Allowance Charged to the HRA during the Year | 1.3 |
| **2.4** | **Allowance for Bad and Doubtful Debts Carried Forward** | **3.2** |

**Note H10 – Major Repairs Reserve**

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

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| **(0.2)** | **Balance Brought Forward** | **(0.2)** |
| (17.5) | Transfer of MRA from the Capital Adjustment Account | (17.9) |
| 17.5 | Capital Expenditure on Land and Property in the HRA | 17.9 |
| **(0.2)** | **Balance Carried Forward** | **(0.2)** |

## The Collection Fund Statement

| 2018-2019 £m | | Note | 2019-2020 Council Tax £m | 2019-2020 NNDR £m | 2019-2020 £m |
|---|---|---|---|---|---|
| | **Deficit/(Surplus) Brought Forward** | | | | |
| (2.4) | City of Wolverhampton Council | | (1.2) | 0.3 | (0.9) |
| (0.1) | West Midlands Police and Crime Commissioner | | (0.1) | - | (0.1) |
| - | West Midlands Fire and Rescue Authority | | - | - | - |
| 2.7 | Central Government | | - | 0.3 | 0.3 |
| **0.2** | | | **(1.3)** | **0.6** | **(0.7)** |
| | **Income** | | | | |
| (111.6) | Council Tax | C1 | (119.5) | - | (119.5) |
| (72.2) | Non-Domestic Rates | C2 | - | (74.7) | (74.7) |
| 0.1 | Transition Protection Payments - NDR | | - | (0.1) | (0.1) |
| **(183.7)** | **Total Income** | | **(119.5)** | **(74.8)** | **(194.3)** |
| | **Expenditure** | | | | |
| | Precepts and Demands | | | | |
| 97.0 | City of Wolverhampton Council | | 103.5 | - | 103.5 |
| 8.1 | West Midlands Police and Crime Commissioner | | 9.7 | - | 9.7 |
| 3.7 | West Midlands Fire and Rescue Authority | | 3.9 | - | 3.9 |
| **108.8** | | | **117.1** | **-** | **117.1** |
| | **Non-Domestic Rates** | | | | |
| - | Central Government | | - | - | - |
| 0.7 | West Midlands Fire and Rescue Authority | | - | 0.7 | 0.7 |
| 72.9 | City of Wolverhampton Council | | - | 72.9 | 72.9 |
| 0.3 | Cost of Collection Allowance | | - | 0.3 | 0.3 |
| **73.9** | | | **-** | **73.9** | **73.9** |
| | **Distribution of Council Tax Surplus/ (Payment of Deficit)** | | | | |
| 0.8 | City of Wolverhampton Council | | 1.0 | - | 1.0 |

| | | | | | |
|---|---|---|---|---|---|
| 0.1 | West Midlands Police and Crime Commissioner | | 0.1 | - | 0.1 |
| - | West Midlands Fire and Rescue Authority | | - | - | - |
| **0.9** | | | **1.1** | **-** | **1.1** |
| | **Distribution of Business Rates Surplus/ (Payment of Deficit)** | | | | |
| 1.0 | City of Wolverhampton Council | | - | (1.1) | (1.1) |
| (2.7) | Central Government | | - | - | - |
| - | West Midlands Fire and Rescue Authority | | - | - | - |
| **(1.7)** | | | **-** | **(1.1)** | **(1.1)** |
| | **Allowance for Bad and Doubtful Debts** | | | | |
| 1.7 | Council Tax | | 3.1 | - | 3.1 |
| 1.1 | Non-Domestic Rates | | - | 1.2 | 1.2 |
| **2.8** | | | **3.1** | **1.2** | **4.3** |
| | | | | | |
| (1.9) | Provision for appeals | | - | 1.1 | 1.1 |
| | | | | | |
| **182.8** | **Total Expenditure** | | **121.3** | **75.1** | **196.4** |
| | | | | | |
| **(0.9)** | **Deficit/(Surplus) for the Year** | | **1.8** | **0.3** | **2.1** |
| | **Deficit/(Surplus) Carried Forward** | | | | |
| (0.9) | City of Wolverhampton Council | | 0.5 | 0.6 | 1.1 |
| (0.1) | West Midlands Police and Crime Commissioner | | - | - | - |
| - | West Midlands Fire and Rescue Authority | | - | - | - |
| 0.3 | Central Government | | - | 0.3 | 0.3 |
| **(0.7)** | | | **0.5** | **0.9** | **1.4** |

**Notes to the Collection Fund Statement**

**Note C1 – The Council Tax Base**

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

| Band | Total Number of Chargeable Dwellings after Effect of Discount | Ratio | Band D Equivalent Dwellings (After allowance for council tax support) | Council Tax including Adult Social Care precept (Single Person Household) | Council Tax including Adult Social Care precept (Multiple Occupancy) |
|---|---|---|---|---|---|
| | | | | £ | £ |
| A Disabled | 88.07 | 5/9 | 48.93 | 762.59 | 1,016.78 |
| A | 34,866.59 | 6/9 | 23,244.39 | 915.10 | 1,220.14 |
| B | 18,822.27 | 7/9 | 14,639.54 | 1,067.62 | 1,423.50 |
| C | 14,233.76 | 8/9 | 12,652.23 | 1,220.14 | 1,626.85 |
| D | 6,121.01 | 9/9 | 6,121.01 | 1,372.66 | 1,830.21 |
| E | 2,754.94 | 11/9 | 3,367.15 | 1,677.69 | 2,236.92 |
| F | 1,551.34 | 13/9 | 2,240.83 | 1,982.72 | 2,643.63 |
| G | 907.84 | 15/9 | 1,513.07 | 2,287.76 | 3,050.35 |
| H | 84.65 | 18/9 | 169.29 | 2,745.31 | 3,660.42 |
| | **79,430.47** | | **63,996.44** | | |

**Note C2 – Non-Domestic Rates**

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

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

The total non-domestic rateable value was £196.2 million as at 31 March 2020 (£194.8 million as at 31 March 2019). The national multipliers for 2019-2020 were 49.1p for qualifying small businesses, and the standard multiplier was 50.4p for all other businesses (48.0p and 49.3p respectively in 2018-2019).

# West Midlands Pension Fund Statement

## Fund Account

| 2018-2019 £m | | Note | 2019-2020 £m |
|---|---|---|---|
| | **Contributions & Benefits** | | |
| (272.7) | Contributions Receivable | **P8** | (353.2) |
| (43.5) | Transfers In | **P9** | (31.2) |
| (14.5) | Other Income | **P10** | (14.3) |
| **(330.7)** | **Total Contributions & Other Income** | | **(398.7)** |
| 589.7 | Benefits Payable | **P11** | 637.8 |
| 37.3 | Payments To & On Account of Leavers | **P12** | 40.0 |
| 4.4 | Other Payments | | 0.9 |
| **631.4** | **Total Benefits & Other Expenditure** | | **678.7** |
| **300.7** | **Net withdrawals from dealings with members** | | **280.0** |
| **87.4** | **Management Expenses** | **P13** | **91.5** |
| | **Transfer in of WMITA Fund at market value** | | **(491.7)** |
| | **Returns on Investments** | | |
| (237.9) | Investment Income | **P14** | (178.2) |
| 0.7 | Taxes on Income | | - |
| (445.2) | Changes in Value of Investments | **P16** | 745.1 |
| - | Revaluation of bulk annuity insurance buy-in contract | | (20.7) |
| **(682.4)** | **Net Return on Investments** | | **546.2** |
| **(294.3)** | **Net (Increase)/Decrease in the Fund During the Year** | | **426.0** |
| **(15,419.8)** | **Net Assets of the Fund at the Beginning of the Year** | | **(15,714.1)** |
| **(15,714.1)** | **Net Assets of the Fund at the End of the Year** | | **(15,288.1)** |

**Net Assets Statement**

| 2018-2019 £m | | Note | 2019-2020 £m |
|---|---|---|---|
| | **Investment Assets (at Market Value)** | **P15** | |
| 339.8 | Bonds | | 494.0 |
| 40.0 | UK Equities | | 28.9 |
| 1,301.3 | Overseas Equities | | 1,408.8 |
| 11,481.8 | Pooled Investment Vehicles | | 10,869.9 |
| 980.7 | Property | | 965.1 |
| 20.7 | Derivatives - Futures | | 11.7 |
| 1.0 | Derivatives - Forward Foreign Exchange | | - |
| 690.6 | Foreign Currency Holdings | | 582.5 |
| 821.8 | Cash Deposits | | 569.6 |
| 51.8 | Other Investment Assets | | 75.8 |
| 0.5 | Outstanding Dividend Entitlement & Recoverable With-Holding Tax | | 7.0 |
| **15,730.0** | **Investment Assets** | | **15,013.3** |
| | **Investment Liabilities (at Market Value)** | **P15** | |
| (2.8) | Derivatives - Forward Foreign Exchange | | (76.8) |
| (152.1) | Other Investment Liabilities | | - |
| **(154.9)** | **Investment Liabilities** | | **(76.8)** |
| **15,575.1** | **Net Investment Assets** | | **14,936.5** |
| **-** | **Bulk annuity insurance buy-in contract** | **P17** | **229.4** |
| **113.7** | **Long-Term Debtors** | **P19** | **14.5** |
| **47.3** | **Current Assets** | **P20** | **132.4** |
| **(22.0)** | **Current Liabilities** | **P21** | **(24.7)** |
| **15,714.1** | **Net Assets of the Fund at the End of the Year** | | **15,288.1** |

The accounts summarise the transactions of the Fund and deal with the net assets at its disposal. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at note 6.

The notes form part of these financial statements.

**Notes to the Pension Fund Statements**

**Note P1 – General**

The description in this note is a high-level summary of the Fund's activities and more detail is available in the Fund's Annual Report which can be found on its website.

West Midlands Pension Fund is part of the Local Government Pension Scheme and is administered by the City of Wolverhampton Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund. Membership of the Fund is available to all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands region together with employees of scheduled and admitted bodies. At 31 March 2020, the Fund had 704 participating employers and 333,934 members as set out in the following table. A full list of participating employers can be found in the Fund's Annual Report.

| 31 March 2019 No | | 31 March 2020 No |
|---|---|---|
| 121,035 | Active Members | 117,950 |
| 95,991 | Pensioner Members | 104,045 |
| 106,769 | Deferred Members | 111,939 |
| **323,795** | **Total** | **333,934** |

In 2019/20, following the enactment of UK Statutory Instrument 2019 No. 1351 ("the Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019, all the assets and liabilities of the former West Midlands Integrated Transport Authority Pension Fund (WMITA) transferred to West Midlands Pension Fund. For any person for whom the appropriate Administering Authority had been, or would have been, the West Midlands Combined Authority, the appropriate

Administering Authority became City of Wolverhampton Council. The regulations effecting this change came into full legal force on 8 November 2019 but with retrospective effect in a legal and accounting sense from 1 April 2019 (the "merger date" cited in the legislation).

The Fund's membership numbers at 31 March 2020 as reported above include the following as a result of the merger with the WMITA Fund: active members 272, pensioner members 4,044 and deferred members 580.

The responsibility for administering the Fund is delegated to the Council's Pensions Committee. It meets at approximately quarterly intervals and has members from each of the seven metropolitan district councils in the West Midlands. A Pensions Board was also in operation during 2019-2020. Membership of the Committee and Board can be found on the City of Wolverhampton Council website: http://wolverhampton.moderngov.co.uk/mgListCommittees.aspx?bcr=1

The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016

The scheme is a contributory defined benefit pension scheme. Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. In addition to employee contributions, employers' contributions are paid as set based on triennial actuarial funding valuations. The valuation in relation to 2019-2020 contribution rates was conducted at 31 March 2016. Employer contribution rates during 2019-2020 ranged from 10.2% to 44.7% of pensionable pay.

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

Further to direction from government, local authority investment pools have been created to bring together the investment assets of LGPS pension funds into eight Investment Pools. LGPS Central Limited (LGPSC), the company established to manage investments on behalf of nine LGPS funds including West Midlands Pension Fund (WMPF) and the West Midlands Integrated Transport Authority Pension Fund (now merged with WMPF), received authorisation from the Financial Conduct Authority in 2018 and the LGPS Central regional investment asset pool went live on 1 April 2018.

As at 31 March 2020, WMPF had assets of £5,318m managed in LGPSC sub-funds comprising £5,217m managed through Authorised Contractual Scheme (ACS) sub-funds and a further £101m managed through a Scottish Limited Liability Partnership vehicle.

Work is underway to develop further LGPS Central Limited sub-funds in collaboration with LGPS Central investment asset pool Partner Funds and WMPF will continue to review the decision to transition assets on a case by case basis dependent on the sub-fund meeting the strategic requirements of WMPF. The transition of the Fund's remaining assets into products offered by LGPS Central Limited is expected to take several years.

WMPF has a number of advisory arrangements in place with LGPSC to support with advice and sometimes to facilitate execution on the underlying assets of legacy portfolios managed directly by the Fund. It is likely that some of these advisory and execution mandates will remain in place for some time to come due to the illiquid nature of the investments and the cost effectiveness of transition.

**Note P2 - Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2019-2020 financial year and its financial position as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

As disclosed above, during 2019-2020 all assets and liabilities of the former West Midlands Integrated Transport Authority Pension Fund transferred to the West Midlands Pension Fund and transactions occurring after that date (on an accruals basis) are attributable to WMPF. The relevant assets and liabilities have been treated in these accounts as having been transferred at the values applicable on the "merger date" 1 April 2019. The Fund Account for 2019-2020 therefore includes:

- a transfer (shown separately) of the total market value of WMITA as at 1 April 2019 including accrued income and expenses at that date.
- all income and expense transactions related to the former WMITA Pension Fund since 1 April 2019 shown on a consolidated basis.

The transfer value of the WMITA Fund shown in these accounts is based on the Net Assets Statement in the audited accounts of the WMITA Fund for the year to 31 March 2019. The audit was performed by Grant Thornton LLP and their audit report was signed in July 2019.

The accounts have been prepared on a going concern basis.

## Note P3 - Statement of Accounting Policies

### A. Fund Account

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

### B. Contribution Income

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

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

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

### C. Transfers to & from Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2020, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals' basis in accordance with the terms of the transfer agreement.

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

**D. Investment Income**

**i) Interest Income**

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

**ii) Dividend Income**

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**iii) Distributions from Pooled Funds**

Distributions from pooled funds are recognised at the date of issue. Investment income arising from the underlying investments of pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the relevant unit price and reported within 'Change in Market Value'.

**iv) Property-Related Income**

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

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

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

**vi) Stock Lending Income**

Stock lending income is accounted for on a cash basis.

## E. Taxation

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

## F. Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2020. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

## G. Financial Assets

The LGPS Central pool trading company, LGPS Central Limited, only became licensed to trade on 1 April 2018. The Pension Fund's view is that for 31 March 2020, cost is still an appropriate estimate of the fair value of shares held in this company.

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

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 17 to the accounts). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

## H. Freehold & Leasehold Properties

Properties are valued annually as at the year-end by independent valuers on a fair value basis. The market values included in these accounts are contained in a valuation report by Savills plc (in accordance with Royal Institute of Chartered Surveyors valuation standards) as at 31 March 2020. All investment property assets are subject to annual revaluation, one third of the commercial property portfolio is valued fully in March each year with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Browns, agricultural valuers, at the same date.

**I. Foreign Currencies**

Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2020.

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 2020.

**J. Derivatives**

Purchases and sales of derivatives are recognised as follows:

Futures – on close out or expiry the variation margins are recognised as cash receipts or payments depending on whether there is a gain or loss.

Forward currency contracts settlements are reported as gross receipts and payments.

**K. Movement in the Net Market Value of Investments**

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

**L. Cash and Cash Equivalents**

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

**M. Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**N. Management Expenses**

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

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

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

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

The cost of external investment advice is included in investment management expenses as is the cost of any 'in-house' Fund investment activity.

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

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

**P. Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVC) scheme for its members the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company Limited and, following its assumption of the former Equitable Life business on 1 January 2020, Utmost Life and Pensions as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note P22).

The AVC arrangements pertaining to the former WMITA Fund have transferred to West Midlands Pension Fund under the merger. These arrangements with Prudential Assurance Company Limited and Utmost Life and Pensions Limited operate on the same basis as described above and will continue to be provided within the West Midlands Pension Fund.

**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 2020 was £1,203.3 million (£1,010.4 million at 31 March 2019).

**Bulk annuity insurance buy-in contract**

The transfer of assets from the WMITA Fund included a bulk annuity insurance buy-in contract with Prudential Retirement Income Limited. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities of a specified group of pensioners on the WMITA pensions payroll as at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for this group whilst they or their dependants are entitled to a pension.

The bulk annuity insurance buy-in contract is included in the Net Assets Statement as an asset and is valued at year end by the Actuary.

**Pension Fund liability**

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

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

**Actuarial Present Value of Promised Retirement Benefits**

**Uncertainties**

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

**Effect if Actual Results Differ from Assumptions**

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

| Changes in Assumptions for Year Ended 31 March 2020 | Approx. % Increase in Liabilities | Approx. Monetary Value £m |
|---|---|---|
| 0.5% per annum decrease in discount rate | 11% | 2,481.9 |
| 1-year increase in member life expectancy | 4% | 993.5 |
| 0.5% per annum increase in salary increase rate | 1% | 227.0 |
| 0.5% per annum increase in CPI inflation | 10% | 2,253.6 |

**Fair Value of Investments**

**Uncertainties**

Certain types of investments are not publicly listed and, as such, there is a degree of estimation involved in their valuation.

**Covid-19 Valuation Uncertainty**

The Covid-19 global pandemic caused unprecedented worldwide disruption across almost all industries from Q1 2020. Valuations of listed investments such as global equities declined c20% on world financial markets in the first quarter of this calendar year and, while the effect of the pandemic is immediately apparent on listed equity and fixed interest holdings, the impact on other asset types is less clear and is revealed over a longer period of time. This is the case for some of the Fund's less liquid and harder to value investments in Property, Infrastructure and Private Equity. There is always a degree of uncertainty inherent in the valuation of these 'level 3' assets as some element of judgement has to be applied and Covid-19 has served to amplify this uncertainty for 2019/20.

Travel and lockdown restrictions have significantly impacted the operating performance of a number of assets in the Fund's Property and Infrastructure portfolios. In their valuation report for the quarter to 31 March 2020, the independent property valuation agents were unable to rely fully on previous market experience to inform opinions on properties and the Fund's directly held property valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS 'Red Book Global' . Subsequent analysis of ongoing rental income receipts and a breakdown of the portfolio into industry sectors has identified that this valuation uncertainty clause need not attach to more than 50% of the Fund's direct property holdings (June 2020 Savills report).

Obtaining timely valuation is a perennial issue with Private Equity where the valuation of investment vehicles often has to be 'stale' or 'lagged' due to the unavailability of pricing information as at the Fund's year end date (by the time the Statement of Accounts has been prepared and audited). Valuations are by necessity estimated and may not fully reflect the performance of the vehicles underlying portfolio of investments. The Covid-19 pandemic is expected to have impacted the trading performance of many investments in this asset class and in some cases, this impact will not have been captured in the values disclosed in this Statement of Accounts. Although it is possible there could be some overstatement of the value of Private Equity assets, analysis completed during the audit process suggests that this variance will not be material.

Any long-term effect on the Fund's investments will take some time to become fully evident. The Fund has not made any adjustments in these accounts to try to reflect potential changes to market values of level 3 investments where they have not been available for year end.

**Effect if Actual Results Differ from Assumptions**

The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under stated in the accounts. The total value of Level 3 investments is £3,469.4m at 31 March 2020 (£3,401.1m at 31 March 2019). The assets classified as Level 3 and the sensitivity of the valuation methods employed is described in Note 17.

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

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

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

In practice, each individual employer's position is assessed separately, and the contributions required are set out in the report dated 31 March 2017. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2017. For comparison purposes, the figures for the two preceding years are also shown. The minimum payable by the seven councils was certified as follows:

| Future Service Rate (1% of Pay) Plus Lump Sum (£) | | | | | |
|---|---|---|---|---|---|
| | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
| Birmingham City Council | 12.9% plus £41,870,400 | 13.4% plus £43,724,800 | 15.3% plus £61,800,000 (£125.0m) | 16.8% plus £61,800,000 (124.0m) | 18.3% plus £61,500,000 (£124.2m) |
| Coventry City Council | 12.7% plus £12,395,000 | 13.1% plus £15,518,000 | 16.8% plus £12,000,000 (£31.1m) | 16.8% plus £12,000,000 (£31.1m) | 16.8% plus £12,000,000 (£31.1m) |
| Dudley MBC | 12.7% plus £9,174,000 | 13.2% plus £10,931,000 | 15.4% plus £9,500,000 (£30.2m) | 17.0% plus £9,700,000 (£31.3m) | 18.6% plus £9,600,000 (£32.3m) |
| Sandwell MBC | 13.1% plus £15,323,200 | 13.1% plus £19,227,200 | 14.7% plus £16,900,000 (£16.9m) | 16.2% plus £17,000,000 (£17.0m) | 17.7% plus £16,900,000 (£16.9m) |
| Solihull MBC | 12.9% | 13.5% | 14.7% plus £5,000,000 (£15.6m) | 16.5% plus £5,100,000 (£16.6m) | 18.4% plus £5,100,000 (£17.4m) |
| Walsall MBC | 13.2% plus £14,835,000 | 13.2% plus £15,518,000 | 15.4% plus £14,000,000 (£28.0m) | 16.9% plus £14,800,000 (£30.2m) | 18.3% plus £15,000,000 (£31.5m) |
| City of Wolverhampton Council | 13.1% plus £9,900,000 | 13.5% plus £10,900,000 | 15.5% plus £13,300,000 (£29.2m) | 16.8% plus £14,000,000 | 18.1% plus £14,600,000 |

The amounts shown in brackets are due in the year where the Council has opted to make a cash payment in advance. These amounts were received by the Fund in April 2017. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

| | 2016 | 2013 |
|---|---|---|
| Rate of return on investments | 4.7% per annum | 5.6% per annum |
| Rate of pay increases | 3.9% per annum | 4.35% per annum |
| Rate of increases in pensions in payment (in excess of Minimum Pension) | 2.4% per annum | 2.6% per annum |

The assets were assessed at market value.

The latest triennial actuarial valuation of the Fund position as at 31 March 2019 has recently been completed and this was again conducted by the Fund's Actuaries, Barnett Waddingham LLP. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020. The 31 March 2019 Actuarial Valuation report can be found on the Fund's website.

**Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose, the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, the following financial assumptions have been used:

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.40% per annum | 2.35% per annum |
| Rate of pay increases | 3.90% per annum | 2.90% per annum |
| Rate of increases in pensions in payment (in excess of Minimum Pension) | 2.40% per annum | 1.90% per annum |

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £22,591.3 million. The effect of the changes in actuarial assumptions between 31 March 2019 and 31 March 2020 as described above is to reduce the liabilities by £2,428.9 million. Adding interest over the year increases the liabilities by a further £536.5 million and allowing for net benefits accrued/paid over the period increases the liabilities by £187.8 million which includes any increase arising as a result of early retirements/augmentations. There is an increase of £1,003.5 million as a result of allowing for actual experience or outcomes which, where different in hindsight, to that assumed previously and, a change in mortality rates assumptions increases liabilities by a further £658.3 million. The merger with the WMITA Fund adds £543.3 million to liabilities.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £23,091.8 million.

**Note P7 – Taxation**

**1. Value Added Tax (VAT)**

The Fund (as part of the City of Wolverhampton Council) pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

**2. Taxation of Overseas Investment Income**

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets.

In some markets, a lower-than-standard tax rate is available, either as a result of a double tax treaty in place between the UK and the investment country (e.g. Poland, Canada, Italy, Sweden) or based on favourable domestic legislation (e.g. Australia, Czech Republic, Singapore). Where this is the case, relief may be granted at source based on documentation already on file (e.g. USA, Belgium, Australia, Finland, France and Norway), or ex post via reclaim forms submitted to the local tax authorities (e.g. Austria, Denmark, Germany, Netherlands, Switzerland and Spain).

There are also markets where relief is not possible - either no double taxation agreement exists (e.g. Brazil, Colombia, Lebanon), or a 'subject to tax' clause prevents UK pension funds from benefiting from treaty rates (e.g. Israel, Malaysia, Portugal). In such cases, the full amount of tax is withheld and is final.

**Note P8 - Contributions Receivable**

**Contributions Receivable by Type**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **From Employers** | |
| 105.3 | Contributions | 170.3 |
| 40.2 | Past Service Deficit | 42.6 |
| - | Augmented Membership | - |
| 24.2 | Additional Cost of Early Retirement | 19.2 |
| **169.7** | | **232.1** |
| | **From Members** | |
| 102.3 | Basic Contributions | 120.5 |
| 0.7 | Additional Contributions | 0.6 |
| 103.0 | | 121.1 |
| **272.7** | **Total Contributions** | **353.2** |

Following the actuarial valuation as at 31 March 2016, some employers chose to pay their full three-year future service and past service deficit contributions as a lump sum in 2017-2018. The lump sums paid by the seven councils and accounted for in 2017-2018 are shown in the table in Note 6. Additionally, having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018-2019 and 2019-2020 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018. The additional contributions above represent the purchase of added membership or additional benefits under the pension scheme.

**Contributions Receivable by Type of Employer**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 54.8 | Administering Authority | 9.1 |
| 190.0 | Scheme Employers | 300.4 |
| 27.9 | Admitted Employers | 43.7 |
| **272.7** | **Total** | **353.2** |

**Note P9 – Transfers In**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 14.9 | Group Transfers | - |
| 28.6 | Individual Transfers | 31.2 |
| **43.5** | **Total** | **31.2** |

**Analysis of transfer value from West Midlands Integrated Transport Authority Pension Fund**

| | 1 April 2019 £m |
|---|---|
| Investments transferred in specie | 263.5 |
| Bulk annuity insurance buy-in contract | 224.5 |
| Cash deposits | 3.9 |
| Current assets | 0.6 |
| Current liabilities | (0.8) |
| **Total** | **491.7** |

**Note P10 – Other Income**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Benefits Recharged to Employers** | |
| (7.7) | Compensatory Added Years | (7.4) |
| (6.8) | Pensions Increases | (6.9) |
| **(14.5)** | **Total** | **(14.3)** |

**Note P11 – Benefits Payable**

**Benefits Payable by Type**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Pensions** | |
| 434.7 | Retirement Pensions | 485.9 |
| 29.2 | Widows' Pensions | 30.0 |
| 1.0 | Children's Pensions | 1.0 |
| 5.5 | Widowers' Pensions | 6.1 |
| 0.2 | Ex-Spouses' Pensions | 0.2 |
| 0.2 | Equivalent Pension Benefits | 0.2 |
| 0.3 | Co-Habiting Partners' Pensions | 0.5 |
| **471.1** | **Total Pensions** | **523.9** |
| | | |
| | **Lump Sum Benefits** | |
| 106.0 | Retirement Allowances | 100.0 |
| 12.6 | Death Grants | 13.9 |
| **118.6** | **Total Lump Sum Benefits** | **113.9** |
| **589.7** | **Total Benefits Payable** | **637.8** |

**Benefits Payable by Type of Employer**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 49.8 | Administering Authority | 51.5 |
| 490.6 | Other Scheduled Employers | 507.2 |
| 49.3 | Admitted Employers | 79.1 |
| **589.7** | **Total Benefits Payable** | **637.8** |

**Note P12 – Payments to and on Account of Leavers**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 32.7 | Individual Transfers | 37.6 |
| 1.9 | Refunds of Contributions | 2.4 |
| 0.1 | State Scheme Pensions | - |
| 2.6 | Bulk Pension Transfer Increases | - |
| **37.3** | **Total** | **40.0** |

**Note P13 – Management Expenses**

| 2018-2019 £m | 2018-2019 £m | | 2019-2020 £m | 2019-2020 £m |
|---|---|---|---|---|
| | 5.1 | Administrative Costs | | 6.0 |
| | 79.9 | Investment Management Expenses, comprising: | | 82.6 |
| 47.5 | | - Management Fees | 52.1 | |
| 13.0 | | - Performance Related Fees | 12.0 | |
| 15.2 | | - Transactions Costs | 14.2 | |
| 0.4 | | - Custody Fees | 0.3 | |
| 3.8 | | - LGPS Central Limited | 4.0 | |
| | 2.4 | Oversight & Governance Costs | | 2.9 |
| | - | | | - |
| | **87.4** | **Total Management Costs** | | **91.5** |

Included in administrative costs of £6.0m above are external audit fees of £72,930 (2018-2019: £50,438). The charge for 2019-2020 comprises the current year audit fee of £62,886 plus £6,574 and £8,000 invoiced by Grant Thornton respectively for additional audit and IAS19 assurance work required in 2018-2019 less a refund of £4,530 received via the Public Sector Audit Appointments agency.

Performance related fees are negotiated with a number of managers. Included in external management of investments are performance related fees of £12.0 million in 2019-2020 (2018-2019: £13 million).

The guidance requires that external investment management fees that are deducted from asset values (rather than invoiced and paid directly) are shown gross. Wherever possible, the figures are based on actual costs disclosed by the manager; where actual costs were not available, best estimates have been made using other available information.

**Note P14 – Investment Income**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Dividends & Interest** | |
| | Bonds | |
| 7.5 | UK Private Sector - Quoted | 7.1 |
| | Equities | |
| 9.2 | UK Private Sector - Quoted | 0.9 |
| 51.9 | Overseas | 39.9 |
| | Pooled Investment Vehicles | |
| 103.1 | UK Private Sector - Quoted | 74.1 |
| 7.0 | Overseas Equities | 6.8 |
| 5.2 | Interest on Cash Deposits | 9.4 |
| 0.9 | Stock Lending | 0.7 |
| 0.5 | Other Investment Income | 2.1 |
| **185.3** | **Total Dividends & Interest** | **141.0** |
| | | |
| 62.5 | Property Management Income | 47.4 |
| (9.9) | Property Management Expenses | (10.2) |
| **52.6** | **Total Property Management** | **37.2** |
| | | |
| **237.9** | **Total Investment Income** | **178.2** |

**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 £384.3m (2019: £215.8m) in exchange for which the custodian held collateral worth £416m (2019: £238.6m) representing 108% of stock lent (2019: 111%). These equities continue to be recognised in the Fund's financial statements and the collateral consists of acceptable securities and government debt.

During the period the stock is on loan, the voting rights on the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

**Other Investment Income**

Other investment income includes the following; Class action income, liquidation proceeds and tax refunds.

**Note P15 – Net Investment Assets**

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| | **Bonds** | |
| 187.9 | UK Companies - Segregated (External) | 186.6 |
| 151.9 | Overseas Sovereign - Index Linked | 307.4 |
| **339.8** | | **494.0** |
| | **UK Equities** | |
| 38.0 | Quoted | 26.9 |
| 2.0 | Unquoted | 2.0 |
| **40.0** | | **28.9** |
| | **Overseas Equities** | |
| 27.5 | Quoted | 61.9 |
| 1,273.8 | Quoted - Segregated (External) | 1,346.9 |
| **1,301.3** | | **1,408.8** |
| | | |
| | **Pooled Investment Vehicles** | |
| | **Managed Funds** | |
| 584.8 | UK Fixed Interest | 632.5 |
| 1,112.3 | Other Fixed Interest | 1,051.4 |
| 920.6 | UK Quoted, Index Linked | 971.0 |

| | | |
|---|---|---|
| 1,244.1 | UK Quoted Equities (Pooled Assets) | 856.0 |
| 4,723.9 | Overseas Quoted Equities (Pooled Assets) | 4,425.9 |
| 818.5 | Infrastructure | 772.8 |
| 1,010.4 | Private Equity | 1,203.3 |
| 530.4 | UK Absolute Returns | 464.9 |
| 61.0 | Overseas Absolute Returns | 63.3 |
| - | Multi Asset Credit | 45.3 |
| 60.0 | UK Property | 79.7 |
| 167.5 | Overseas Property | 156.0 |
| | | |
| | **Unit Trusts** | |
| 162.8 | UK Quoted Equities | 40.4 |
| - | UK Property | 107.3 |
| 85.3 | Overseas Equities | - |
| 0.2 | Overseas Property | 0.1 |
| **11,481.8** | | **10,869.9** |
| | **Property** | |
| 934.2 | UK Freehold | 918.9 |
| 46.5 | UK Leasehold* | 46.2 |
| **980.7** | | **965.1** |
| | **Derivative Contracts** | |
| 20.7 | Futures | 11.7 |
| 1.0 | Forward Currency Contracts | - |
| **21.7** | | **11.7** |
| | **Foreign Currency Holdings** | |
| 0.5 | Australian Dollars | 0.4 |
| 0.6 | Canadian Dollars | 0.6 |
| 1.0 | Czech Koruna | 1.3 |
| 0.5 | Danish Kroner | 0.5 |
| 208.8 | Euro | 113.3 |
| 239.4 | Hong Kong Dollars | 135.7 |

| | | |
|---|---|---|
| 0.5 | Hungarian Forints | 0.6 |
| 5.4 | Japanese Yen | 5.9 |
| - | Mexican Peso | 1.9 |
| 0.5 | New Zealand Dollars | 0.5 |
| 0.5 | Norwegian Kroner | 0.4 |
| 0.5 | Polish Zloty | 0.5 |
| 0.8 | Singapore Dollars | 1.3 |
| 2.9 | Swedish Kroner | 2.9 |
| 3.1 | Swiss Francs | 5.2 |
| 0.6 | Turkish Lira | 1.0 |
| 225.0 | United States Dollars | 310.5 |
| **690.6** | | **582.5** |
| | **Cash Deposits** | |
| 488.0 | UK | 456.7 |
| 333.8 | US | 112.9 |
| **821.8** | | **569.6** |
| | **Other Investments** | |
| 51.8 | Broker Balances | 75.8 |
| 0.5 | Outstanding Dividend Entitlement & Recoverable Withholding Tax | 7.0 |
| **52.3** | | **82.8** |
| | | |
| **15,730.0** | **Total Investment Assets** | **15,013.3** |
| | | |
| | **Investment Liabilities** | |
| | | |
| | **Derivative Contracts** | |
| (2.8) | Forward Currency Contracts | (76.8) |
| **(2.8)** | | **(76.8)** |
| | **Other Liabilities** | |
| (152.1) | Amount Payable for Purchases | - |
| **(152.1)** | | **-** |

| | | |
|---|---|---|
| (154.9) | Total Investment Liabilities | (76.8) |
| | | |
| 15,575.1 | Net Investment Assets | 14,936.5 |

* All leasehold properties are held on long leases

Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

The following investments represent more than 5% of the net assets of the Fund. All of these companies are registered in the UK.

| 1 April 2019 | | | 31 March 2019 | |
|---|---|---|---|---|
| Market Value £m | % of Total Market Value % | | Market Value £m | % of Total Market Value % |
| | | **Security** | | |
| 3,649.8 | 23.5 | LGPS Central Global Ex UK Passive Equity Fund | 1,835.1 | 12.3 |
| - | - | LGPS Central All World Equity Climate Multi Factor Fund | 1,382.4 | 9.3 |
| 1,244.1 | 8.0 | LGPS Central Global UK Passive Equity Fund | 850.9 | 5.7 |
| 791.2 | 5.1 | LGPS Central Global Equity Active Multi-Manager Fund | 715.3 | 4.8 |
| 920.6 | 5.9 | Legal & General - All Stocks Index Linked Gilts Fund | 940.5 | 6.3 |

The proportion of the market value of investment assets managed in the regional asset pool and by each external manager at the year-end is set out below.

| 1 April 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Market Value £m | % of Total Market Value % | | Market Value £m | % of Total Market Value % |
| **Investments Managed by LGPS Central Limited Regional Asset Pool** | | | | |
| 4,723.9 | 30.4 | Authorised Contractual Schemes (ACS) – global equities | 4,366.3 | 29.2 |
| 1,244.1 | 8.0 | Authorised Contractual Schemes (ACS) – UK equities | 850.9 | 5.7 |
| - | - | Scottish Limited Liability partnership – private equity | 101.3 | 0.7 |
| **5,968.0** | **38.4** | | **5,318.5** | **35.6** |
| **Investments Managed Outside of LGPS Central Limited Regional Asset Pool** | | | | |
| 2,579.3 | 16.6 | In-House | 2,142.9 | 14.3 |
| 162.8 | 1.0 | Managers - UK Quoted | 152.9 | 1.0 |
| 1,273.8 | 8.2 | Managers - Emerging Markets | 1,042.1 | 7.0 |
| 85.3 | 0.5 | Managers - Global Equities | 364.4 | 2.4 |
| 2,805.6 | 18.2 | Managers - Fixed Interest | 3,148.9 | 21.1 |
| 227.7 | 1.5 | Managers - Indirect Property | 235.7 | 1.6 |
| 818.5 | 5.3 | Managers - Infrastructure Funds | 772.8 | 5.2 |
| 591.4 | 3.8 | Managers - Absolute Return | 573.5 | 3.8 |
| 1,010.4 | 6.5 | Managers - Private Equity | 1,102.0 | 7.4 |
| **9,554.8** | **61.6** | | **9,535.2** | **63.8** |
| 52.3 | | | 82.8 | |
| **15,575.1** | | | **14,936.5** | |

**Analysis of Derivatives**

**Objectives and Policies for Holding Derivatives**

During the year the Fund approved the use of both forward foreign currency hedging and exchange traded futures contracts for the purpose of hedging exposures to reduce risk in the Fund and to gain exposure to assets more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

a) Futures

During 2018-2019, the Fund made a decision to transition assets out of an internal global equity portfolio and into a new sustainable global equities mandate. Recognising that there would be some lead time in implementing this strategy, as and when the existing portfolio was realised, proceeds were invested in global equity futures pending transition to the sustainable mandate. The Fund retained exposure to these Futures during 2019-2020 as the implementation of the mandate progresses. The Fund has also invested in gilt futures to help align the weighting in this area with its strategic target and as a tool for risk management. The use of futures enables the Fund to invest cash in higher returning assets at relatively lower cost whilst retaining flexibility to switch money cheaply into the income assets that the Fund may be targeting. From time to time, the Fund may use futures (typically gilt or equity futures) to gain tactical market exposure. The Fund will also continue to use futures to manage transitions, ensuring efficient portfolio management and potentially manage active currency risk not covered by the passive hedging strategy. The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

b) Forward Foreign Currency

To reduce the volatility associated with fluctuating currency rates, the Fund has a passive currency programme in place. The Fund commenced its currency hedging programme in September 2017 following approval by Committee to amend the Strategic Investment Allocation Benchmark to reflect the passive currency management programme. The Fund's hedging programme aims to protect returns in sterling terms and reduce currency risk. The neutral hedge ratio is considered to be 50% based on the strategic weight of each region but actual hedge ratios applied will vary from time to time with a rebalancing taking place on a monthly basis to reflect changing market values.

c) Open Forward Currency Contracts

| Settlement | Currency Bought Bought | Local Value m | Currency Sold | Local Value m | Asset Value £m | Liability Value £m |
|---|---|---|---|---|---|---|
| One to six months | GBP | 622.2 | EUR | 720.2 | - | (16.1) |
| One to six months | GBP | 1,070.6 | USD | 1,404.6 | - | (60.7) |
| **Open Forward Currency Contracts at 31 March 2020** | | | | | | **(76.8)** |
| **Net Forward Currency Contracts at 31 March 2020** | | | | | | **(76.8)** |

Prior Year Comparative

| | | |
|---|---|---|
| **Open Forward Currency Contracts at 31 March 2019** | **1.0** | **(2.8)** |
| **Net Forward Currency Contracts at 31 March 2019** | | **(2.8)** |

d) Open Exchange Traded Futures Contracts

| Type | Expires | Economic Exposure £m | Market Value 31 March 2019 £m | Economic Exposure £m | Market Value 31 March 2020 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| UK Equity | Under One Year | 59.9 | 1.1 | 71.3 | 6.6 |
| Overseas Equity | Under One Year | 730.4 | 19.3 | 469.2 | 2.6 |
| UK Bond | Under One Year | 150.0 | 0.3 | 158.3 | 2.5 |
| **Total Assets** | | | **20.7** | | **11.7** |

## Note P16 – Investment Market Value Movements Analysis

| | Value as at 31 March 2019 £m | Transfer of assets From WMITA fund £m | Purchases at cost and derivative payments £m | Sales proceeds and derivative receipts £m | Investment management Fees deducted at source £m | Change in market value £m | Value as at 31 March 2020 £m |
|---|---|---|---|---|---|---|---|
| Bonds | 339.8 | - | 99.6 | - | - | 54.6 | 494.0 |
| UK Equities | 40.0 | - | - | (11.5) | - | 0.4 | 28.9 |
| Overseas Equities | 1,301.3 | - | 353.3 | (0.4) | - | (245.4) | 1,408.8 |
| Pooled Investment Vehicles | 11,481.8 | 263.5 | 8,413.8 | (8,684.6) | (66.9) | (537.7) | 10,869.9 |
| Property | 980.7 | - | 18.5 | (1.9) | - | (32.2) | 965.1 |
| | **14,143.6** | **263.5** | **8,885.2** | **(8,698.4)** | **(66.9)** | **(760.3)** | **13,766.7** |
| Derivative Contracts | - | - | | | | | |
| Futures | 20.7 | - | 141.4 | (200.7) | - | 50.3 | 11.7 |
| Forward Foreign Exchange | (1.8) | - | 282.5 | (322.4) | - | (35.1) | (76.8) |
| | **14,162.5** | **263.5** | **9,309.1** | **(9,221.5)** | **(66.9)** | **(745.1)** | **13,701.6** |
| Broker Balances | 51.8 | - | | | | | 75.8 |
| Outstanding Dividend Entitlement & Recoverable Withholding Tax | 0.5 | - | | | | | 7.0 |
| Amounts Payable for Purchases of Investments | (152.1) | - | | | | | - |
| Foreign Currency | 690.6 | - | | | | | 582.5 |
| Cash Deposits | 821.8 | 3.9 | | | | | 569.6 |
| **Total Investments** | **15,575.1** | **267.4** | **-** | **-** | **-** | **-** | **14,936.5** |

The change in market value of investments comprises both increases and decreases in the market value of investments held at any time during the year and profits and losses realised on the sales of investments during the year.

Purchases also include transfers in of investments, take-over of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £19.7 million (2018/19: £15.2 million). In addition to the transaction costs disclosed below, indirect costs are incurred through the bid-offer spread of investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

For 2019-2020, the disclosure in note 16 has been changed to be consistent with the CIPFA Code. Sales are now stated at market value. This is a change from previous years when note 16 reported sales at book value and impacts the disclosure of comparative change in market value which is shown in these accounts as £445.2m. In the Fund's accounts for the year to 31 March 2019, this figure was reported separately as £2,002.2m realised profits on disposals less £1,557m decrease in market values.



| 1 April 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 15.2 | Pooled Investment Vehicles | 14.2 |
| **15.2** | | **14.2** |

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 2018-2019 is set out below:

| | Value as at 31 March 2018 £m | Purchases at Cost and Derivative Payments £m | Sales Proceeds and Derivative Receipts £m | Investment Management Fees Deducted at Source £m | Change in Market Value £m | Value as at 31 March 2019 £m |
|---|---|---|---|---|---|---|
| Bonds | 188.5 | 151.3 | - | - | - | 339.8 |
| UK Equities | 1,494.2 | 0.2 | (1,451.7) | (0.8) | (1.9) | 40.0 |
| Overseas Equities | 6,343.5 | 13.9 | (4,551.6) | (2.1) | (502.4) | 1,301.3 |
| Pooled Investment Vehicles | 5,351.9 | 7,820.1 | (2,489.6) | (59.3) | 858.7 | 11,481.8 |
| Property | 862.8 | 120.5 | (25.5) | - | 22.9 | 980.7 |
| | **14,240.9** | **8,106.0** | **(8,518.4)** | **(62.2)** | **377.3** | **14,143.6** |
| Derivative Contracts | - | - | - | - | - | - |
| Futures | - | 51.7 | (4.2) | - | (26.8) | 20.7 |
| Forward Foreign Exchange | 44.9 | 167.0 | (308.4) | - | 94.7 | (1.8) |
| | **14,285.8** | **8,324.7** | **(8,831.0)** | **(62.2)** | **445.2** | **14,162.5** |
| Broker Balances | 0.4 | | | | | 51.8 |
| Outstanding Dividend Entitlement & Recoverable Withholding Tax | 45.2 | | | | | 0.5 |
| Amounts payable for purchases of investments | - | | | | | (152.1) |
| Foreign Currency | 126.0 | | | | | 690.6 |
| Cash Deposits | 830.1 | | | | | 821.8 |
| **Total Investments** | **15,287.5** | | | | | **15,575.1** |

## Property Holdings

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows:

| 2018-2019 £m | | 2019-2020 £m |
|---|---|---|
| 862.8 | **Opening Balance** | 980.7 |
| 120.5 | Additions | 18.5 |
| (25.5) | Disposals | (1.9) |
| 22.9 | Net Change in Market Value | (32.2) |
| **980.7** | **Closing Balance** | **965.1** |

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligation to purchase, construct or develop any of these properties nor does it have any responsibility for any repairs, maintenance or enhancements.

The future minimum lease payments receivable by the Fund are as follows:



| 31 March 2019 £000 | | 31 March 2020 £000 |
|---|---|---|
| 40,056 | Within One Year | 43,025 |
| 142,444 | Between One & Five Years | 156,653 |
| 164,249 | Later than Five Years | 174,138 |
| **346,749** | **Total Future Lease Payments Due Under Existing Contracts** | **373,816** |

The receivables above have been reduced by a credit loss allowance of 1% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This deduction is based on advice from the Fund's property letting agents.

In their valuation report for the quarter to 31 March 2020, the independent property valuation agents were unable to rely fully on previous market experience to inform opinions on properties and their valuations were therefore reported on the basis of 'material valuation uncertainty'.

## Note P17 – Fair Value Basis of Valuation

The basis of the valuation of each class of investment assets is detailed below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Asset Type | Valuation Level | Basis of Valuation | Observable & Unobservable Inputs | Key Sensitivity |
|---|---|---|---|---|
| Market Quoted Investments | 1 | Published bid market price ruling on 31 March 2020 | Not applicable | Not applicable |
| Quoted Bonds | 1 | Market bid price based on current yields | Not applicable | Not applicable |
| Futures | 1 | Published exchange prices at 31 March 2020 | Not applicable | Not applicable |
| Unquoted Bonds | 2 | Average of broker prices | Evaluated price feeds | Not applicable |
| Pooled Investment Vehicles – Unit Trusts and Property Funds | 2 | PIV are stated at the bid price quoted or the closing single market prices. | Net Asset Value (NAV) based pricing set on a forward pricing basis. | Not applicable |
| Forward Foreign Exchange Derivatives | 2 | Market forward exchange rates at 31 March 2020. | Exchange rate risk | Not applicable |
| Freehold & Leasehold Properties | 3 | Valued at fair value at the year-end using the investment valuation reports of Savills Plc. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Browns at the year end. | Existing lease terms and rentals, independent market research, tenant covenant strength, estimated vacancy levels, estimated rental growth, discount rate. | Significant changes in rental growth, vacancy levels or discount rate could affect valuations. |
| Unquoted Equity (Includes Private Equity, Infrastructure & Absolute Return/Diversified Growth Funds) | 3 | Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. | Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability. | Could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |

| | | | | |
|---|---|---|---|---|
| | | | | |
| Bulk annuity insurance buy-in | 3 | Provided by the Fund's Actuary based on a roll-forward of the value placed on the buy-in as part of the WMITA Fund 2019 triennial actuarial valuation, allowing for estimated level pensions paid and the change in the discount rate used to value the buy-in. | Key underlying inputs for the valuation are the discount rate and life expectancy. Discount rate has been set at 0.43% with reference to the 11-year point of the Bank of England nominal gilt yield curve, consistent with the 2019 valuation of the WMITA Fund. | Adjustments to discount rate and life expectancy. |

**Sensitivity of Level 3 Assets**

The table below details the Fund's review of financial information as provided by independent advisors. The valuation methods detailed above are likely to be accurate to within the ranges and, as set out below, the consequent potential impact on the closing value of investments at 31 March 2020.



| Level 3 Assets | Valuation Range | Valuation at 31 March 2020 | Valuation Increase | Valuation Decrease |
|---|---|---|---|---|
| | % (+/-) | £m | £m | £m |
| Freehold & Leasehold Property | 11.7 | 965.1 | 1,078.0 | 852.2 |
| Private Equity | 26.2 | 1,203.3 | 1,518.6 | 888.0 |
| Infrastructure | 13.8 | 772.8 | 879.4 | 666.2 |
| Absolute Return/Diversified Growth | 12.8 | 528.2 | 595.8 | 460.6 |
| Unit Trust – UK Property | 11.7 | 107.3 | 119.9 | 94.7 |
| **Total** | | **3,576.7** | **4,191.7** | **2,961.7** |

The key underlying inputs for the annuity insurance buy-in level 3 valuation are the discount rate and life expectancy. The impact of changes as calculated by the Fund's Actuary is shown below:

| Changes in assumptions – year ended 31 March 2020 | Adjustment | Valuation at 31 March 2020 | Valuation Increase | Valuation Decrease |
|---|---|---|---|---|
| | | £m | £m | £m |
| Adjustment to discount rate | (-/+) 0.5% | 229.4 | 240.8 | 218.5 |
| Adjustment to life expectancy assumptions | (+/-) 1 year | 229.4 | 244.5 | 215.2 |

**17 i) Fair Value Hierarchy**

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest 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 the determining appropriate assumptions.

The values of the investments in private equity, infrastructure and absolute return/diversified growth funds are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds. Valuations are undertaken quarterly, and an adjustment is made to roll forward the latest available valuation to 31 March as appropriate.

The values of the investments in hedge funds are based on the net asset value provided by the fund manager. Fund valuations are obtained through external experts with assurance provided via the

audit opinion. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which fair value is observable.

| Value at 31 March 2020 | 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 & Loss | 6,705.0 | 3,496.7 | 2,611.6 | 12,813.3 |
| Non-Financial Assets at Fair Value through Profit & Loss | - | - | 965.1 | 965.1 |
| Financial Liabilities at Fair Value through Profit and Loss | - | (76.8) | - | (76.8) |
| | **6,705.0** | **3,419.9** | **3,576.7** | **13,701.6** |
| Bulk annuity insurance buy-in at fair value through profit and loss | | | 229.4 | 229.4 |
| **Net Financial Assets** | **6,705.0** | **3,419.9** | **3,806.1** | **13,931.0** |

| Value at 31 March 2019 | 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 & Loss | 7,576.0 | 3,188.2 | 2,420.4 | 13,184.6 |
| Non-Financial Assets at Fair Value through Profit & Loss | - | - | 980.7 | 980.7 |
| Financial Liabilities at fair value through profit and loss | | (2.8) | | (2.8) |
| **Net Financial Assets** | **7,576.0** | **3,185.4** | **3,401.1** | **14,162.5** |

**Note 17 ii) Reconciliation of Fair Value Measurements Within Level 3**

| Period<br>2018-2019 | Market value at<br>01 April 2019<br>£000 | Transfer of assets from WMITA Fund<br>£000 | Transfers into level 3<br>£000 | Purchases during the Year<br>£000 | Sales during the Year<br>£000 | Unrealised Gains/Losses<br>£000 | Realised Gains/Losses<br>£000 | Market Value at<br>31 March 2020<br>£000 |
|---|---|---|---|---|---|---|---|---|
| Freehold & Leasehold Property | 980.7 | - | - | 18.5 | (2.3) | (29.5) | (2.3) | 965.1 |
| Private Equity | 1,010.4 | - | - | 229.1 | (174.0) | 62.0 | 75.8 | 1,203.3 |
| Infrastructure | 818.5 | - | - | 28.1 | (93.3) | (25.1) | 44.6 | 772.8 |
| Absolute Return/Diversified Growth | 591.5 | 95.2 | - | 176.0 | 314.7 | (610.4) | (38.8) | 528.2 |
| Unit Trusts – UK Property | - | - | 107.3 | - | - | - | - | 107.3 |
| **Total** | **3,401.1** | **95.2** | **107.3** | **451.7** | **45.1** | **(603.0)** | **79.3** | **3,576.7** |

**Bulk annuity insurance buy-in contract**

The transfer of assets from the WMITA Fund included a bulk annuity insurance buy-in contract with Prudential Retirement Income Limited. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities of a specified group of pensioners on the WMITA pensions payroll as at 11 August 2011. The insurance provider will pay the cost of the monthly pension payments for this group whilst they or their dependants are entitled to a pension.

Benefits recharged to Prudential during the year have been credited to the Fund account and the value of the buy-in recalculated at year end by the Fund Actuary and recognised in the Net Assets Statement as follows:

| | 31 March 2020<br>£m |
|---|---|
| **Bulk annuity insurance buy-in contract value transferred in 1 April 2019** | **224.5** |
| | |
| Actuarial revaluation of insurance contract: | |
| Interest on buy-in | 2.8 |
| Change in demographic assumptions | 5.2 |
| Change in actuarial assumptions | 18.1 |
| Actuarial experience | (5.4) |

| | |
|---|---|
| | **20.7** |
| | |
| Level pensions paid by insurer | (15.8) |
| | |
| **Closing market value** | **229.4** |

The change in demographic assumptions results from updating mortality assumptions to be in line with those adopted for the WMITA Fund 2019 triennial funding valuation. The change in actuarial assumptions arises from the reduction in the discount rate from 1.3% at 31 March 2019 to 0.43% at 31 March 2020.

**Note P18 – Investment Capital Commitments**

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

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 814.6 | Non-Publicly Quoted Equities & Infrastructure | 1,146.6 |
| 103.9 | Property | 85.4 |
| **918.5** | **Total** | **1,232.0** |

These amounts relate to outstanding commitments due on funds held in the private equity, fixed interest, absolute return and alternative investment portfolios.

**Note P19 – Long Term Debtors**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| 82.6 | Private Equity Consolidation Proceeds | - |
| 28.9 | Early Retirement Costs | 11.6 |
| 2.2 | Reimbursement of Lifetime Tax Allowances | 2.9 |
| **113.7** | **Total** | **14.5** |

During 2018-2019, the Fund contracted to sell a number of small limited partnership private equity holdings in the secondary markets for the total sum of £184.6m. £102m of the proceeds were received by 31 March 2019 and the balance is receivable in two instalments of £29.3m due by 28 August 2020 and £53.3m due by 29 September 2020. The total outstanding of £82.6m was therefore reported as long-term debtors in 2018-2019 but is included in Current Assets - Other Receivables for 2019-2020.

The Fund has agreed for certain employers to defer payment of amounts due to meet early retirement costs and £11.6m is due after the following financial year (2018-2019: £28.9m). The instalments due in 2020-2021 are reported in Current Assets.

**Note P20 – Current Assets**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | **Receivables & Prepayments** | |
| | Contributions Receivable | |
| 11.8 | - Employers' Future Service | 12.8 |
| 4.7 | - Employers' Past Service Deficit | 6.0 |
| 9.6 | - Members | 10.5 |
| 19.0 | Other Receivables | 103.1 |
| **45.1** | **Total Receivables & Prepayments** | **132.4** |
| 2.2 | Cash | - |
| **47.3** | **Total Current Assets** | **132.4** |

Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it was calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This was to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The final payment of £3.26m was received into the Fund's bank account on 17 April 2020.

**Note P21 – Current Liabilities**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | **Payables & Receipts in Advance** | |
| (5.9) | Pensions & Lump Sum Benefits | (3.7) |
| | Receipts in advance | (5.2) |
| (16.1) | Other Payables | (15.8) |
| **(22.0)** | **Total** | **(24.7)** |



**Note P22 – Additional Voluntary Contributions**

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

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

| 31 March 2019 | | | 31 March 2020 | |
|---|---|---|---|---|
| Utmost Life £m | Prudential £m | | Utmost Life £m | Prudential £m |
| **1.8** | **37.8** | **Opening Value of the Fund** | **1.6** | **37.6** |
| | | WMITA Fund AVC balances consolidated following merger | 0.1 | 0.6 |
| - | 5.9 | Income | 0.3 | 6.0 |
| (0.3) | (7.6) | Expenditure | (0.1) | (5.6) |
| 0.1 | 1.5 | Change in Market Value | (0.1) | (1.0) |
| **1.6** | **37.6** | **Closing Value of the Fund** | **1.8** | **37.6** |

The Fund had originally appointed Prudential Assurance Company Limited and Equitable Life Assurance Society as AVC providers. On 1 January 2020, the business of Equitable Life including all member AVC policies was transferred to Utmost Life and Pensions.



**Note P23 – Post Year End Transactions**

There were no post year end transactions that require disclosure in the accounts.

**Note P24 – Financial Instruments**

**Net Gains and Losses on Financial Instruments**

| 31 March 2019 £m | | 31 March 2020 £m |
|---|---|---|
| | **Financial Assets** | |
| 327.6 | Fair Value through Profit & Loss | (677.8) |
| | | |
| | **Financial Liabilities** | |
| 94.7 | Fair Value through Profit & Loss | (35.1) |
| **422.3** | **Total** | **(712.9)** |



**Classification of Financial Instruments**

The following table analyses the carrying amounts of financial instruments by category. No financial instruments were reclassified during the accounting period.

| 31 March 2019 | | | | 31 March 2020 | | |
|---|---|---|---|---|---|---|
| Fair Value through Profit & Loss £m | Assets at Amortised Cost £m | Financial Liabilities at Amortised Cost £m | | Fair Value through Profit & Loss £m | Assets at Amortised Cost £m | Financial Liabilities at Amortised Cost £m |
| | | | **Financial Assets** | | | |
| 339.8 | - | - | Bonds | 494.0 | - | - |
| 40.0 | - | - | UK Equities | 28.9 | - | - |
| 1,301.3 | - | - | Overseas Equities | 1,408.8 | - | - |
| 11,481.8 | - | - | Pooled Investment Vehicles | 10,869.9 | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| 21.7 | - | - | Derivative Contracts | 11.7 | - | - |
| - | - | - | Bulk annuity insurance buy-in | 229.4 | | |
| - | 1,514.6 | - | Cash | - | 1,152.1 | - |
| - | 166.0 | - | Other Investment Balances | - | 82.8 | - |
| - | 45.1 | - | Debtors | - | 146.9 | - |
| **13,184.6** | **1,725.7** | **-** | | **13,042.7** | **1,381.8** | **-** |
| | | | **Financial Liabilities** | | | |
| (2.8) | | | Derivative Contracts | (76.8) | - | - |
| | | (152.1) | Other Investment Balances | - | - | - |
| | | (22.0) | Creditors | - | - | (24.7) |
| **13,181.8** | **1,725.7** | **(174.1)** | | **12,965.9** | **1,381.8** | **(24.7)** |
| | **14,773.4** | | | | **14,323.0** | |



**Note P25 – The Nature and Extent of Risks Arising from Financial Instruments**

**Risk management**

The Fund's activities expose it to a variety of financial risks including:

**Investment risk** - the possibility that the Fund will not receive the expected returns.

**Credit risk** - the possibility that the other parties might fail to pay amounts due to the Fund.

**Liquidity risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

**Market risk** - the possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Fund are as follows:

**Investment Risk**

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted an 86% exposure to return seeking assets such as equities, property, other alternatives with equity-like returns, including emerging market debt and higher return fixed interest investments. The remaining 14% is allocated to stabilising assets, such as UK Government bonds or gilts, both index-linked and conventional.

Risks in return-seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds but doing so at the expense of return-seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

**Counterparty Risk**

In deciding to affect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

**Credit Risk**

The Fund's deposits with financial institutions as at 31 March 2020 totalled £569.6 million in respect of temporary loans and treasury management instruments (31 March 2019: £821.8 million). The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2020 is shown overleaf:

| Summary | Long Term Fitch Rating* | 31 March 2019 £m | 31 March 2020 £m |
|---|---|---|---|
| **Money Market Funds** | | | |
| HSBC Sterling Liquidity Fund | Aaa-mf | 157.4 | 191.1 |
| HSBC USD Liquidity Fund Class H | Aaa-mf | 333.8 | 112.9 |
| LGIM Liquidity Fund | AAAmmf | 111.0 | 132.8 |
| Insight Liquidity Fund | AAAmmf | 0.9 | 26.9 |
| Invesco Liquidity Fund | AAAmmf | - | 2.9 |
| **Bank Deposit Accounts** | | | |
| Nat West Corporate Cash Manager Account | A+ | 129.9 | - |
| CBRE Client Account West Midlands Met Authority | | 15.7 | 13.1 |
| HSBC Global Active | AA- | 73.1 | 89.9 |
| **Total** | | **821.8** | **569.6** |



**Liquidity Risk**

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. Due to the cashflow management procedures and the liquidity of certain asset types held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

**Foreign Exchange Risk**

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the Fund's currency exposure is managed in line with the daily cash management policy.

**Securities Lending**

As at 31 March 2020, £384.3 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender (31 March 2019: £215.8 million). The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £416.0 million, giving a margin of 8.2% (2018-2019, £238.6 million, margin of 10.6%).

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Net income from stock lending amounted to £0.7 million during the year (2018-2019: £0.9 million) and is detailed in note 14 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

**Reputational Risk**

The Fund's prudent approach to the collective risks listed above and compliance with best practice in corporate governance, ensures that reputational risk is kept to a minimum.

**Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the Fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

**Other Price Risk - Sensitivity Analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019-2020 reporting period:

**Market Risk – Other Price Risk**

| Asset Type | Value at 31 March 2020 £m | % Change | Value on Increase £m | Value on Decrease £m |
|---|---|---|---|---|
| UK Equities | 1,027.5 | 18.7% | 1,219.6 | 835.4 |
| Global Equities (Excluding UK) | 5,775.1 | 16.5% | 6,728.0 | 4,822.2 |
| Property | 235.7 | 11.7% | 263.3 | 208.1 |
| Fixed Interest* | 3,103.9 | 5.5% | 3,274.6 | 2,933.2 |
| Private Equity | 1,203.3 | 26.2% | 1,518.6 | 888.0 |
| Alternatives** | 1,210.8 | 11.2% | 1,346.4 | 1,075.2 |
| **Total Fund (see note below)** | **12,556.3** | | **14,350.5** | **10,762.1** |

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£438m) and infrastructure (£772.8m)

The total Fund volatility taking into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory is 10.5%. On this basis, the total value on increase is £13,874.7 million and the total value on decrease is £11,237.9 million. Due to the approach taken to determine the total Fund volatility (in which the beneficial impact of diversification is recognised), the monetary impact on the total Fund assets is determined using the total Fund volatility, which is lower than the sum of the monetary impact for each asset class.

| Asset Type | Value at 31 March 2019 £m | % Change | Value on Increase £m | Value on Decrease £m |
|---|---|---|---|---|
| UK Equities | 1,446.9 | 16.6% | 1,687.1 | 1,206.7 |
| Global Equities (Excluding UK) | 6,110.5 | 16.9% | 7,143.2 | 5,077.8 |
| Property | 227.7 | 14.3% | 260.3 | 195.1 |
| Fixed Interest* | 2,957.5 | 8.3% | 3,203.0 | 2,712.0 |
| Private Equity | 1,010.4 | 28.3% | 1,296.3 | 724.5 |
| Alternatives** | 1,409.9 | 16.8% | 1,646.8 | 1,173.0 |
| **Total Fund (see note below)** | **13,162.9** | | **15,236.7** | **11,089.1** |

*includes exposure to fixed interest gilts, index-linked gilts, corporate bonds, cash, high yield debt, emerging market debt, mezzanine debt, convertibles and senior loans.

**includes exposure to absolute return (£591.4m) and infrastructure (£818.5m)



**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 2020 and 31 March 2019:

| Asset Type | Value at 31 March 2020 £m | % Change | Value on Increase £m | Value on Decrease £m |
|---|---|---|---|---|
| Global Equities (Excluding UK) | 5,775.1 | 10.0% | 6,352.6 | 5,197.6 |
| Private Equity | 1,203.3 | 10.0% | 1,323.6 | 1,083.0 |
| Fixed Interest | 3,103.9 | 10.0% | 3,414.3 | 2,793.5 |
| Alternatives | 1,210.8 | 10.0% | 1,331.9 | 1,089.7 |
| Property Funds | 156.0 | 10.0% | 171.6 | 140.4 |
| Liquid Assets | 758.9 | 10.0% | 834.8 | 683.0 |
| **Total** | **12,208.0** | | **13,428.8** | **10,987.2** |

| Asset Type | Value at 31 March 2019 £m | % Change | Value on Increase £m | Value on Decrease £m |
|---|---|---|---|---|
| Global Equities (Excluding UK) | 6,110.5 | 10.0% | 6,721.6 | 5,499.5 |
| Private Equity | 1,010.4 | 10.0% | 1,111.4 | 909.4 |
| Fixed Interest | 2,957.5 | 10.0% | 3,253.3 | 2,661.8 |
| Alternatives | 1,409.9 | 10.0% | 1,550.9 | 1,268.9 |
| Property Funds | 167.5 | 10.0% | 184.3 | 150.8 |
| Liquid Assets | 1,074.0 | 10.0% | 1,181.4 | 966.6 |
| **Total** | **12,729.8** | | **14,002.9** | **11,457.0** |

**Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

**Interest Rate Risk - Sensitivity Analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points (BPS) per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

| Asset Type | Carrying Amount at 31 March 2020 £m | Change in Year in the Net Assets Available to Pay Benefits | |
|---|---|---|---|
| | | +100BPS £m | -100BPS £m |
| Index-Linked Gilts | 940.5 | (201.0) | 201.0 |
| Gilts | 189.9 | (24.4) | 24.4 |
| Corporate Bonds | 614.7 | (55.5) | 55.5 |
| Gilt Future* | 2.5 | (0.2) | 0.2 |
| US TIPS | 307.5 | (37.3) | 37.3 |
| **Total** | **2,055.1** | **(318.4)** | **318.4** |

| Asset Type | Carrying Amount at 31 March 2019 £m | Change in Year in the Net Assets Available to Pay Benefits +100BPS £m | -100BPS £m |
|---|---|---|---|
| Index-Linked Gilts | 920.6 | (203.5) | 203.5 |
| Gilts | 172.7 | (20.0) | 20.0 |
| Corporate Bonds | 585.1 | (49.6) | 49.6 |
| Gilt Future* | 150.3 | (13.1) | 13.1 |
| US TIPS | 151.9 | (18.5) | 18.5 |
| **Total** | **1,980.6** | **(304.7)** | **304.7** |



**Note P26 – Impairment for Bad and Doubtful Debts**

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

| Additions Analysis | | |
|---|---|---|
| **Individual Value** | **Number** | **Total £** |
| Less than £100 | 24 | 645 |
| £100 - £500 | 4 | 591 |
| Over £500 | 0 | 0 |
| **Total** | **28** | **1,236** |

| Write-Off Analysis | | |
|---|---|---|
| **Individual Value** | **Number** | **Total £** |
| Less than £100 | 5 | 282 |
| £100 - £500 | 62 | 10,513 |
| Over £500 | 11 | 85,486 |
| **Total** | **78** | **96,281** |

**Note P27 – Related Parties**

Pensions administration and certain investment functions are performed by the City of Wolverhampton Council and the costs shown in Note P13 above are recharged to the Fund. Contributions of £9.1 million were receivable from the City of Wolverhampton Council for 2019-2020 (2018-2019: £64.1 million - having paid £5.5m on account in January 2018, City of Wolverhampton Council paid the balance of its 2018-2019 and 2019-20 future service and past service deficit contributions by lump sum payment of £57.3m on 30 April 2018). Balances owed by and to the Council at the year-end are shown in Notes P19, P20 and P21.

**Pensions Committee**

Five members of the Pensions Committee are also members of the Fund as set out below:

Pensioner: Councillors Inston, Jaspal, Page and Tildesley

Active: Councillor Hevican

Each member of the Pensions Committee is required to declare any interests relevant to the matters being discussed at each meeting.

There are eight employing bodies of the Fund in which a member of the Committee has declared an interest for 2019-2020. Contributions from each of these employers are set out below.

| Contributions Receivable 2018-2019 £000 | | Contributions Receivable 2019-2020 £000 |
|---|---|---|
| - | Birmingham City University | 10,412 |
| 175 | Birmingham Museums Trust | 147 |
| 64,100 | City of Wolverhampton Council | 9,106 |
| - | Heath Park Academy – Central Learning Partnership Trust | 82 |
| 21 | Kingswood Trust | 18 |
| - | Sandwell MBC | 35,354 |
| - | University of Wolverhampton | 12,616 |
| 218 | Wolverhampton Girls High School | - |
| 4,890 | Wolverhampton Homes | 5,017 |

**LGPS Central Limited**

LGPS Central Limited has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the LGPS Central Pool, of which City of Wolverhampton Council, as the administering authority for West Midlands Pension Fund, is one of the shareholders. Each authority has one Class A voting share in LGPS Central Limited.

The Fund has agreed a number of advisory agreements covering a range of asset classes within the fixed income portfolio and wider illiquid portfolios. LGPS Central Limited has also provided the Fund with execution only services in the management of forward currency hedging positions. The charges in respect of these services totalled £1.539m in 2019/20 (2018/19: £1.699m). The amount outstanding in respect of these services at 31 March 2020 was £0.477m (2018/19: £0.202m).

The Pension Fund was invoiced £2.496m in respect of Governance, Operator Running and Product Development costs by LGPS Central Limited for 2019/20 (2018/19: £2.071m). The amount outstanding in respect of these services at 31 March 2020 was £0.950m (2018/19: £0.370m). Invoicing frequency changed from monthly to quarterly beginning with the quarter ended 31 March 2020 hence the larger amount outstanding at the end of 19/20.

LGPS Central Limited has let office space from City of Wolverhampton Council since 1 April 2018 on a sub leasing arrangement. The rental income and rates receivable by City of Wolverhampton Council from LGPS Central Limited in 2018/19 totalled £147,469 (2018/19: £81,798) and the reimbursement of associated utilities and maintenance charges for 2019/20 totalled £30,695 (2018/19: £8,021). In addition, West Midlands Pension Fund provided graphic design services to LGPS Central Limited for fees of £8,988 (2018/19: £11,770).

LGPS Central Limited is an admitted body and employs staff that are active members of the West Midlands Pension Fund. Normal contributions receivable from LGPS Central Limited for the year to 31 March 2020 were £442,700 (2018/19: £483,646).

City of Wolverhampton Council (via the Pension Fund) has invested £1.315m in LGPS Central Limited class B shares and £0.685m in class C shares in 2017/18 and these are both balances at this year-end.

**Key Management Personnel**

The Fund's current senior management comprises seven individuals: The Director of Pensions, Assistant Director (Finance & Investments), the Head of Operations, the Head of Pensions, the Head of Governance and Corporate Services and the Head of Finance and, since November 2019, the Head of Investments. The total salary paid to the senior management team in 2019-2020 was £538,000 (2018-2019: £458,000). In addition to this, employer's pension contributions of £171,000 (2018-2019: £138,000) were met from the Fund in respect of these individuals.

**Note P28 – Events after the Reporting Date**

Investment markets experienced sharp falls in the last few weeks of the financial year due to the impact of Coronavirus and the lockdown of economies around the world. Whilst valuations from many of the Fund's level 3 investments had been received in time for the year end accounts, a number remained outstanding and may see diminution in value when reporting in the quarter to the end of June 2020.

The Fund has not made any adjustments in these accounts to try to reflect potential changes to market values of level 3 investments where they have not been available for year end.

The long-term effects of the Coronavirus pandemic on the wider economy and the Fund's investments is difficult to assess at this time given the level of government support that has been provided to help both companies and individuals cope with the crisis. The Fund remains alert to the potential challenges continuing to arise from the pandemic and to such a sharp economic downturn and is working closely with its advisers and managers in the management of its portfolios with the focus remaining on achieving the Fund's long-term objectives. It should be noted that post year-end, investment markets have made significant recoveries pushing valuations on level 1 investment markets back up to previous highs.

The "McCloud" Court Judgement is likely to have significant ramifications for all public service pension schemes. When reforms were introduced in 2014 and 2015, protections were put in place for older scheme members. The Court of Appeal ruled that younger members of the Judges and Firefighters Pension schemes were discriminated against because the protections did not apply to them also. The Government has since confirmed that there will be changes to all public sector schemes to remove this age discrimination. The remedy and how it will be applied within the LGPS may not be confirmed for some time pending primary legislation for public sector schemes. There is therefore some uncertainty over the costs of any potential changes that might be required, and these cannot at this time be calculated and included within the accounts.

# Annual Governance Statement 2019-2020

*Scope of Responsibility*

The City of Wolverhampton Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has a Local Code of Corporate Governance, which will be revised in 2020-2021 in line with the latest principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The latest principles have been adopted in this statement.

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

*Wolverhampton Homes* is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the Council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the Council and Wolverhampton Homes which sets out the contractual and governance arrangements between the parties.

*WV Living has been set up by the City of Wolverhampton Council, to develop and build a new range of homes within the city. Senior Officers from the Council are directors of the company, which helps provide the Council with an overall strong level of assurance. Formal governance arrangements have been established and during the year no significant issues over governance were highlighted. The Council's internal auditors also facilitated a risk management workshop, from which a strategic risk register was developed and approved by the Board.*

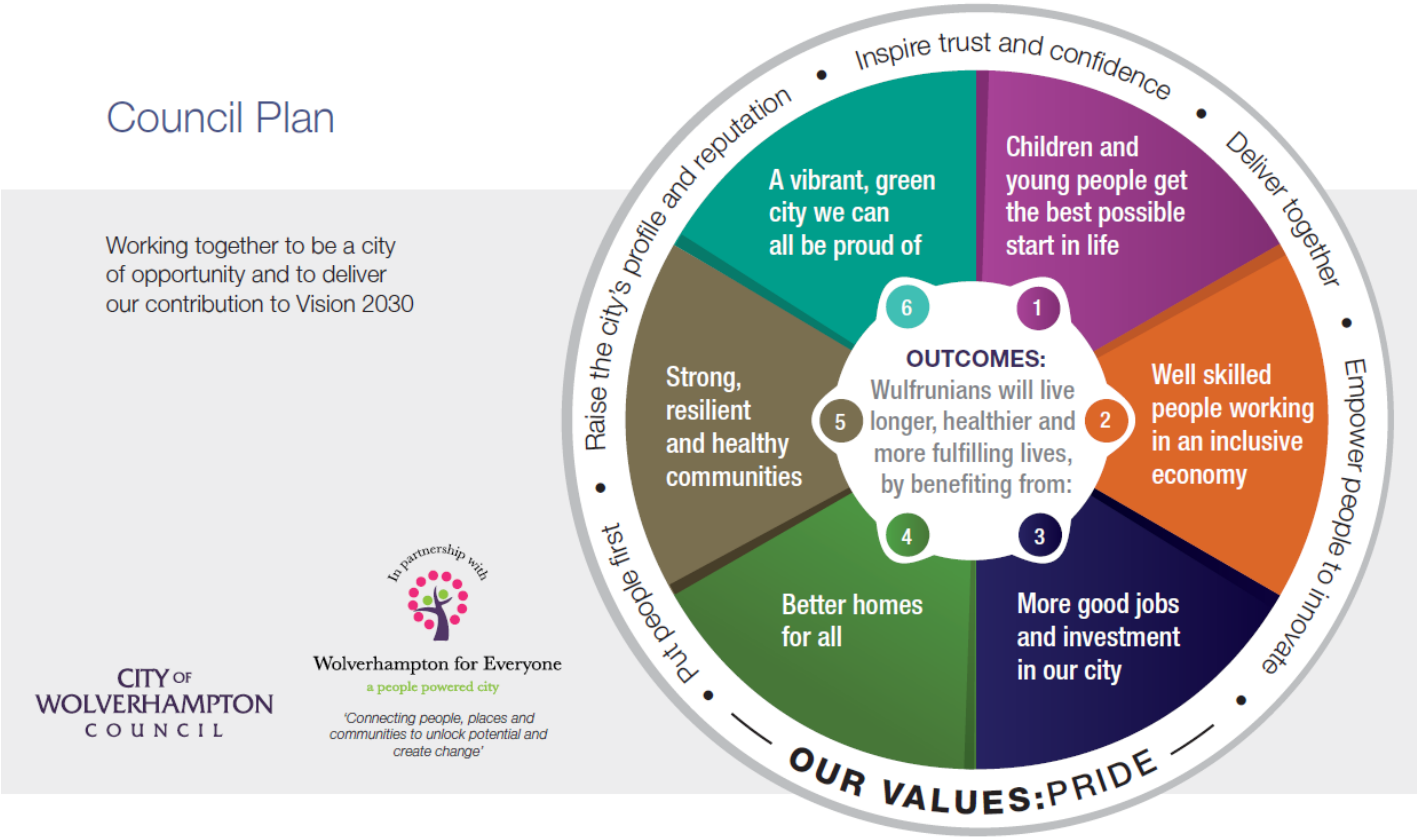
*The Purpose of the Governance Framework*

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 2020 and up to the date of approval of the annual report and statement of accounts.

In April 2019 The City of Wolverhampton Council approved a new Council Plan for 2019-2024. The plan builds on the Council's transformation journey with a focus on delivering the following improved outcomes for the City:




These outcomes are underpinned by the governance environment. This environment is consistent with the core principles of the new CIPFA/ SOLACE framework. In reviewing the Council's priorities and the implications for its governance arrangements, the Council carries out an annual review of the elements that make up the governance framework to ensure it remains effective.

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

| Core principles of the CIPFA/ SOLACE framework | Assurances required | Governance framework providing assurance | Review of Effectiveness | Issues identified |
|---|---|---|---|---|
| • Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.<br>• Ensuring openness and comprehensive stakeholder engagement.<br>• Defining outcomes in terms of sustainable economic, social, and environmental benefits.<br>• Determining the interventions necessary to optimise the achievement of the intended outcomes.<br>• Developing the entity's capacity, including the capability of its leadership and the individuals within it.<br>• Managing risks and performance through robust internal control and strong public financial management.<br>• Implementing good practices in transparency, reporting, and audit to deliver effective accountability. | • Delivery and communication of an agreed corporate plan<br>• Quality services are delivered efficiently and effectively<br>• Clearly defined roles and functions<br>• Management of risk<br>• Effectiveness of internal controls<br>• Compliance with laws, regulation, internal policies and procedures<br>• Value for money and efficient management of resources<br>• High standards of conduct and behaviour<br>• Public accountability<br>• Published information is accurate and reliable<br>• Implementation of previous governance issues | • The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer)<br>• Council, Cabinet and Committees<br>• Audit and Risk Committee<br>• Scrutiny function<br>• Standards Committee<br>• Internal and External Audit<br>• Strategic Executive Board<br>• Directors Assurance Framework<br>• Corporate and Business plans<br>• Medium Term Financial Strategy<br>• Corporate Risk Register and Assurance Map<br>• Codes of Conduct<br>• Whistleblowing and other anti-fraud related policies<br>• Financial and Contract Procedure Rules | • External Audit Report to Those Charged with Governance (ISA 260) Report – unqualified opinion<br>• Annual Internal Audit Report - unqualified opinion<br>• Annual Audit and Risk Committee Report to Council<br>• Annual Statement of Accounts<br>• Local Government Ombudsman Report<br>• Scrutiny reviews<br>• Annual Governance Statement – including the follow up of previous year issues | • Savings Targets<br>• Procurement, Contract Management and Monitoring<br>• Strategic Asset Plan<br>• Civic Halls<br>• GDPR<br>• Constitution Review |

- modern.gov (the council's committee management information system)

*Covid-19 Considerations*

As with all other local authorities the Council has had to adapt the ways in which it has worked to address Covid-19 not only in terms of ensuring that the City's vulnerable residents have been supported alongside its businesses but also in its governance arrangements.

The Council's approach to governance during Covid-19 has been very clearly set out and shared with Councillors, the key aspects include:

- A new officer structure to deal with Covid-19 - this has allowed for focus to be applied to key work streams coming out of the pandemic and is displayed below.

# City of Wolverhampton Council

## COVID-19 Governance Structure

CITY OF WOLVERHAMPTON COUNCIL


A new approach to decision making – following the introduction of full lockdown in March 2020 the Council has instigated a decision-making approach that ensured that the focus has been on protecting the vulnerable and supporting businesses.

All decisions that would have been made by Committees or Council were made using this process, set out in the emergency powers provisions in the constitution, until the provisions in the Coronavirus Act 2020 on remote meetings were enacted. Since the provisions on remote meetings were enacted a significant number of remote meetings have taken place using those powers and these have been filmed and made available on the Council's website. Those decisions that would normally be made by Council continue, at this time, to be made using the urgent decision process.

All decisions going through the emergency powers process have to be made by the Leader, 2 Cabinet Members and the Chair and Vice-Chair of Scrutiny Board and have been shared with Councillors through a daily update sent to all Councillors and published through the Council's website.

As part of this approach the Council has extended the Municipal year to a date to be confirmed in the Autumn, once the public health position is clearer and office holders will remain in post until Annual Council has taken place in the Autumn.

These decisions have included:

- Supplementary budget estimates as a result of Covid-19 including the use of funding from Government.
- The establishment of a Food Distribution Hub to ensure that the most vulnerable were kept fed and supported during the pandemic.
- The provision of accommodation for rough sleepers thereby ensuring that all rough sleepers were able to have a roof over their head and importantly additional support to help them move forward.
- Decisions on the support and protection for the most vulnerable adults and children.
- Business support grants for those businesses particularly affected by Covid-19.

This approach has ensured that decisions have been made rapidly with Councillor involvement from both political groups and have been shared across all Councillors.

- All decisions made have been tracked and recorded on detailed spreadsheets with records of whether they need to be made through the urgent decision process or through delegated powers – this has included the following:

  - Clear records being kept of the financial pressures as a result of Covid-19 including loss of income, additional spend.
  - Clear evidence-based approach to explain why decisions have been made, using performance data including for example detailed records of the levels of Personal Protective Equipment (PPE) held by the Council and distributed to Care Homes in the City.

- Communication implications of any approach taken and the need to ensure that the message is received by all communities.

- A Covid-19 risk register has been produced interfacing with the Council's strategic risk register to ensure that the Council has been aware of and taken account of the key Covid-19 risks in an ever-changing situation.

At all times the approach of the Council has been informed and shaped by advice from the Director of Public Health and key partners to ensure that the Council as had the most effective response possible to the pandemic. As part of the governance process key areas of concern have been able to be fed up through the mechanisms set out in the Governance Structure to a regional and national level. The same approach is now being taken as we consider the Council's approach to recovery.

### *The Review of Effectiveness*

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of councillors and senior officers within the Council who have responsibility for the development and maintenance of the governance framework including Internal Audit's annual report, the Scrutiny function and also by reports made by the Council's external auditors and other review agencies and inspectorates. The above table helps illustrate this framework, where assurance is provided and the processes through which the effectiveness of these arrangements are reviewed.

### *Opinion for 2019-2020*

The review of effectiveness has found the arrangements for the governance framework to be fit for purpose.

A key component of the review of effectiveness is through the work of the Council's Audit and Risk Committee and during the year the Committee continued helping to ensure that the Council had a modern, effective and risk focussed Committee. During the year they:

- Maintained the focus of the Committee on the Council's risk management arrangements, gaining an increased assurance that the Council was managing its risks well. This also involved the Committee 'calling-in' certain risks and their risk owners, for a more detailed review.
- Maintained a strong working relationship, through regular progress meetings, with the Council's External Auditors Grant Thornton, the Internal Auditors and Senior Officers. There was also had further engagement with Grant Thornton, through regular consideration of their informative Audit Committee Update publications at Committee meetings.

*Internal Audit*

Internal Audit has reviewed itself against the governance arrangements set out in the CIPFA Statement on the Role of Head of Internal Audit and the Council is able to confirm that the arrangements conform to these requirements. The Council is also able to confirm compliance with the Public Sector Internal Audit Standards.

Internal Audit has concluded that based on the work undertaken during the year on areas of key risk, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes".

*Internal Audit – Covid-19*

Towards the end of the year, and in response to Covid-19 the internal audit team were redeployed to either the food distribution hub or to work on the small business grant team, set up in order to process and distribute the grant payments under the scheme introduced by the Government. As a result of this, a number of audits that were underway at the time of the outbreak, had to be put on hold and therefore were unable to feed into this opinion. Therefore, while internal audit needed to caveat their opinion with this, they did believe that they had managed to complete sufficient work pre-outbreak, in order to support their opinion and to inform this statement and felt able to place a level of assurance upon an existing strong control framework with regards to financial systems.

*Managing the risk of Fraud and Corruption*

With regards to the CIPFA Code of practice on managing the risk of fraud and corruption - having considered all the principles, the Council is satisfied that it has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud. The activities undertaken in this area were primarily led during the year by the Audit and Risk Committee.

*CIPFA's Statement on the Role of the Chief Financial Officer in Local Government*

The role of the Council's Section 151 Officer has been assessed against the CIPFA Statement and found to be compliant.

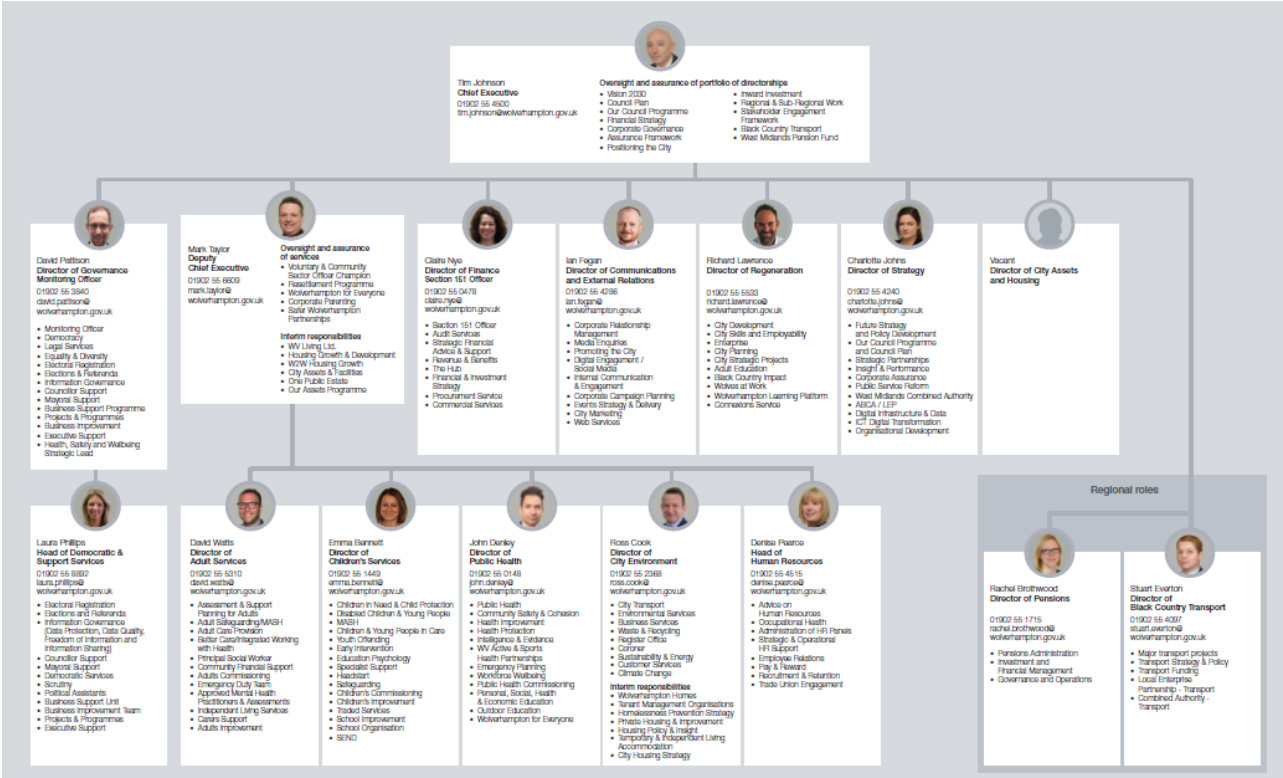
*Key changes to the governance framework during the year*

The Council appointed a new Director of Governance and he started in post in February 2020, he will be working through the approach to decision making in the Council, and the Council's constitution, to seek to modernise the approaches and the constitution to ensure that they provide an effective, efficient and transparent approach to decision making, building on the positive experiences in terms of decision making during Covid-19.

Work had been commenced on reviewing the approach to policy formulation and scrutiny and proposals were taken to the Council's Governance Committee in March 2020, however these were put on hold as a result of the Covid-19 pandemic. The intention was to seek to reinvigorate the

role of scrutiny and ensure that there was greater involvement of backbenchers in policy formulation at a formative stage. The review of the constitution and the approaches to decision making, policy formulation and scrutiny will be carried out during the year 2020-2021 and will involve the relevant Committees and ultimately any changes to the constitution will require Council approval.

A number of governance changes were put in place in response to Covid-19 and these have been addressed in more detail in the Covid-19 update included above.



*West Midlands Pension Fund*

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

*Wolverhampton Homes*

The Council’s internal auditors also provide the internal audit service for Wolverhampton Homes. They were able to provide reasonable assurance that the Company had adequate and effective governance, risk management and internal control processes, and this was reported through their Audit and Business Assurance Committee.

*Progress on the Governance Issues from 2018-2019*

The table below describes the governance issues identified during 2018-2019 and the progress made against these during 2019-2020. While a number of issues have been carried forward to 2020-2021, these often relate to a range of on-going activities that develop as issues are addressed and programmes continue.

| 2018-2019 - Key areas for Improvement | In-year update provided as at September 2019 | End of year update |
|---|---|---|
| *Savings Targets*<br><br>Council approved a balanced budget for 2019-2020 without the use of general reserves. It is estimated that further savings of £27.3 million are required in 2020-2021 rising to £40 –50 million over the medium-term to 2023-2024.<br><br>Council approved that work starts on developing budget reduction and income generation proposals for 2020-2021 onwards in line with the Five-Year Financial Strategy, with progress reported back to Cabinet in July 2019. It is important to note that projected budget deficit assumes the achievement of budget reduction proposals amounting to £9.6 million over the five-year period 2019-2020 to 2023-2024.<br><br>It is also important to note that a number of assumptions have been made with regards to the level of resources that will be available to the Council, and that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have significant detrimental impact and further increase the budget deficit forecast of the medium-term. | In October 2019 Cabinet received an update on the projected deficit and Medium-Term Financial Plan.<br><br>The report reflected the Spending Round 2019 announced on 4 September 2019 which set out the Government's spending plans for 2020-2021 only.<br><br>Having taken into account the forecast changes to corporate resources and emerging pressures, it was anticipated that the projected remaining budget deficit for 2020-2021 will be in the region of £3.9 million, rising to £20 million over the medium-term period to 2023-2024.<br><br>It was noted that the Government announced that additional grant funding totalling £1 billion will be made available to local authorities in 2020-2021 for adults and children's social care, to support the rising demand on the social care system. The Local Government Finance Settlement 2020-2021 technical consultation, issued by the Ministry of Housing, Communities and Local Government (MHCLG), provides the proposed formula for the distribution of the grant and indicative local authority allocations of the additional unringfenced grant funding.<br><br>It was anticipated that the additional adult and children's social care grant will be sufficient to meet the projected remaining budget deficit in 2020-2021 and therefore enable the Council to set a balanced budget in that year. | In March 2020 the Council approved a balanced budget for 2020-2021 without the use of general reserves. It is estimated that further savings of £15.5 million are required in 2021-2022 rising to £20.2 million in 2022-2023.<br><br>It is important to note that a number of assumptions have been made with regards to the level of resources that will be available to the Council, and that there continues to be a considerable amount of uncertainty with regards to future funding streams for local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have significant detrimental impact and further increase the budget deficit forecast of the medium-term.<br><br>Due to Covid-19, government have announced that the Review of Relative Needs and Resource will not be undertaken this year. It is understood that a spending review will take place, but we would anticipate that this will be for one year only.<br><br>Council approved that work starts on developing budget reduction and income |

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| | | generation proposals for 2020-2021 onwards in line with the Five-Year Financial Strategy, with progress reported back to Cabinet in July 2020.<br>Due to Covid-19 it has not been possible to progress this work. Further we have identified that budget reductions and income generation proposals built into the budget for 2020-2021 may not be deliverable at this stage. The council is providing information to MHCLG and seeking funding to mitigate the impact of Covid-19 both for 2020-2021 and the medium term. |
| *Procurement, Contract Management and Monitoring*<br>This will remain ongoing due to the changes to regulation and legislation, particularly in the light of our exit from the EU. | A watching brief will be maintained on any changes to public contract regulations and any further new legislation, enacted through the Brexit negotiations. | A watching brief continues to be maintained on any changes to public contract regulations and any further new legislation, enacted through the Brexit negotiations. |
| *Corporate Landlord*<br>The Asset Plan has been approved and the Council is in the process of ensuring the data is kept up to date. The transfer of all data is a significant undertaking and will need more time to fully implement. | Our Assets Council Plan – First Review:<br>The Asset Management Review commenced in June 2019 as part of the 'Our Asset' Council Plan programme. The initial findings from this Phase 1 Review were reported to SEB on 12 November 2019. The Our Assets programme will be reported to Our Council Scrutiny in 2019-2020 Q4 for review. | Following the SEB Report on 12 November 2019, the first phase of the capital investment programme has been developed and is due for approval week commencing 11 May 2020. To determine this programme a thorough asset challenge was undertaken to ensure investment would only be made in buildings that are to be retained in the medium term or where buildings required urgent compliance works to remain operational. |

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| | Audits have been completed on Corporate Buildings with improvement plans now in place and being progressed. Where appropriate, these actions will be reported to the Audit and Risk Committee in Q4 of 2019-2020.<br>Asset Management Plan:<br>The Strategic Asset Plan (SAP) 2018-2023 continues to be reviewed on an annual basis. An updated Action Plan was submitted to Our Council Scrutiny in September 2019. The updated Action Plan is to be incorporated into the SAP and reported to SEB in February 2020 prior to being updated on the Council's website. | The Our Assets Programme is progressing well with the creation of an Our Space programme which focusses on asset rationalisation, utilisation of the Civic Centre, investment/refurbishment into Civic Centre and partnership working/collaboration with Public Sector partners.<br>The updated Action Plan has been uploaded onto the Council's website (alongside the original Strategic Asset Plan). A further review of the Strategic Asset Plan and action plan is due in September 2020 which will take into account the Our Space programme. Due to Covid-19 the asset portfolio is likely to change as new ways of working/agile working is implemented.<br>Asset Management data continues to be validated and the Assets Service will shortly be considering the best way to house this data. The Corporate Property Database will need to be reprocured during 2021 and the team will firstly explore if an in-house system can be developed to accommodate all of the asset information and KPIs. |
| *Civic Halls*<br>This is one of the highest priority projects the Council is involved in and will be monitored regularly. Project management has improved, and we are now part way through the project with the main refurbishment works due to commence in the near future. | A new contractor has now been selected and the team are in the process of working through the early stages of engagement with them. Mobilisation works have begun, and design work is ongoing.<br>A new Operating Model has been proposed and the procurement process for a new operator has commenced. | The site works had been suspended on the project for 12 weeks due to Health & Safety issues related to the Covid-19 threat. The design work has continued at pace whilst the site was closed, the Stage 4 detail design is close to completion. |

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| Liaison with Planning and Historic England needs to be finalised so that the final phase can be undertaken in the determined timeframe. | The management of the Shaylor administration process is continuing with some activities being complete at the point at which Willmott Dixon take control of the site. | The project team have continued to work in collaboration with Willmott Dixon to review and interrogate their construction cost plan.<br><br>The project is still currently in the Pre-Construction Services Delivery Agreement stage (PCSDA), which will come to a completion on 31st June 2020.<br>The construction cost plans issued by Willmott Dixon have been continually scrutinised and interrogated by the team since December 2019. We continue to work towards a finalised cost, as part of the construction contract which is currently being drafted by Legal and F&G.<br>The programme Board will continue to ensure that the Civic Halls project is kept to budget and timeline with close supervision and ensuring that the contract entered into is robust and that it is met and followed. |
| *General Data Protection Regulations*<br>Further compliance checks and audits will be scheduled throughout the year that follow on from the initial GDPR readiness audit and will be aligned to the statutory Data Protection Officer (DPO) reporting. This will ensure that compliance with the new Regulation and UK Data Protection laws will be monitored and reported on an ongoing basis once this work programme has formally ended. | The Council continues to make progress in embedding the GDPR requirements, and this will be picked up by the new Director of Governance when they join the Council in February. | Data protection compliance activities have formed part of core business activities and are being aligned with the statutory the Data Protection Officer (DPO) reporting framework.<br>GDPR activities form part of the overall work plan for Information Governance; DPIA assessments are embedded for large scale processing; a robust information incident management process continues to be in place; employee training and awareness |

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| | | continues through mandatory e-modules and demand led targeted training sessions.<br>Regular reporting on performance regarding GDPR is taking place including reporting to the relevant Cabinet member. The performance during the year has been positive with no significant breaches taking place.<br><br>Work continues to ensure that the Council remains compliant particularly with the challenges presented in Information Governance terms of agile working. |
| *Combined Authority*<br><br>As one of the seven constituent authorities of the West Midlands Combined Authority, we need to continue to ensure that the city is benefitting from devolution deals to the region to meet key priorities. The Leader will also have responsibility for a specific portfolio within the Combined Authority working across the region. | The Council continues to play an active part in the West Midlands Combined Authority, including the dialogue with the new government on the future of devolution and opportunities to maximise the benefits of future policy and investment decisions for the City of Wolverhampton. The Leader continues to have responsibility for the Economic and Innovation portfolio at the Combined Authority, working across the region on matters such as the implementation of the Local Industrial Strategy. | The council continues to play an active part in regional working including the West Midlands Combined Authority. This has been particularly key in the response to Covid-19, ensuring that the benefits of working collaboratively are capitalised on. For example, developing regional approaches to issues where appropriate.<br>The Leader continues to have responsibility for the economic and innovation portfolio at the Combined Authority and has worked across the region in shaping the immediate economic recovery priorities. |
| *Tenant Management Organisations*<br><br>We will need to monitor and help complete the implementation of the recommendations arising | A programme of audits of each TMO was completed by internal audit during 2018-2019. These provided limited assurance that TMO's were operating in accordance with their management agreement(s) and | A programme of support is still on offer to the agents. Audit reviews were completed, and new template forms were issued to the managing agents for them to work on. A |

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| from the recent audit reviews and as included in the Improvement Plans for the four TMOs. | identified non-implementation of recommendations made in previous audit reports.<br><br>Since publication of the TMO audit reports in 2018 additional support has been provided to the four TMO's to assist with the implementation of outstanding issues, this work is being overseen by the Director for City Housing and a considerable number of recommendations made in the audit reports have now been actioned and completed.<br><br>An enhanced programme to support TMOs during 2019-2020 was approved by SEB in May 2019. The programme covers 17 areas of support which includes; governance, financial management, health and safety, housing development support, provision of safeguarding training, access to legal services, information governance support, risk management, business continuity, audit and procurement support.<br><br>TMO modular management agreements were reviewed and new management agreements were agreed and implemented for each TMO with effect from 1 April 2019.<br><br>Resources within the Housing Strategy Team have been increased to provide support and focus on TMOs ensuring compliance with these agreements.<br><br>New improved Key Performance Indicator's (KPI's) have been introduced. Performance is being reported to the Cabinet (Performance) Panel on a quarterly basis in a new report format. A Housing KPI dashboard was also developed.<br><br>The Director for City Assets and Housing attended the Audit and Risk Committee meeting in July 2019 and | programme of support timetable was also developed, but dates will be reviewed in light of Covid-19 and an additional audit sheet was developed to cover Health and Safety.<br><br>New KPI's have been agreed and a new report developed with end of year reports being produced to look at the overall performance of the managing agents. Housing dashboards are also updated.<br><br>Governance training is to be arranged with the support of the National Federation of tenants, but again this has been delayed due to Covid-19. However, it will resume when services return to normal. Contracts have been reviewed to identify information needed from TMOs on a yearly basis, including looking at liability insurances and to help ensure compliance. Audit outcomes will be reported in the quarterly reports and also at the end of year, where they will be RAG rated accordingly which will provide additional assurance to the Council. A useful contacts page has been developed and shared and other processes are being reviewed in developing best practice policy guide and auditing guide.<br><br>Management agreements are signed. Support for services in the Council has been sought and obtained from HR, Procurement, Equalities and Information Governance and Communications. Areas identified have included reviewing and updating privacy |

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| | presented a report detailing the considerable progress made in responding to the TMO Audits carried out in 2018. She also briefed the Committee on the resources deployed to deliver the enhanced workplan for 2019-2020, which is providing additional support for the TMO's from a number of departments. This programme is providing the Council with a greater level of assurance.<br>A further update report will be presented to Audit and Risk Committee in Autumn 2020. | policies, websites in regard to terminology and signposting and support form ASB teams. A Procurement SLA has been drawn up and is with them for review. Training has been provided in regard to Section 11 claims, with Asbestos request process reviewed and will be implemented shortly.<br>An introduction to Managing Agents was developed and shared with the team.<br>Monthly catch up meetings have been in place with Chief officers for them to communicate any issues and request support from the Council.<br>We are working with Health and Safety to identify trends and to then work with TMOs to help promote fire awareness with tenants. |
| *Residential Site Management Agreement*<br>Consultation to take place with residents and Site Management Agent (Gypsy and Traveller Council) in order to finalise the service level agreement. | The Council has drafted heads of terms for the lease.<br>As part of a scheduled maintenance visit, the Council made a number of recommendations to ensure the site is safe and well maintained. For the lease to be granted works need to be completed by both the Site Manager and the Council, including:<br>• A legionella risk assessment<br>• An asbestos management survey<br>• A fire risk assessment<br>• Fire safety improvement including action notices, points, means of raising alarm. | The lease for the management of the site was finalised with the Council approving the lease and the lease arrangement with the current site manager. Under the instruction of Housing Strategy, Corporate Landlord have commissioned the necessary safety assessments of the site which are being undertaken as access is made available to the site by the site manager.<br>In addition, completion of the works has been delayed by the Covid-19 outbreak and will |

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| | • Electrical repairs maintenance and an electrical service certificate.<br>Works were due to be completed in December 2019.<br>The District Valuer Service reviewed the fee that is paid to the Council to manage the site and has recommended a fee as part of the updated lease. Approval from Procurement is currently being considered. As such, the lease is due to signed before the end of the financial year. | continue on the basis of Government Guidelines for remaining safe within the workplace whilst maintaining the safety of this community.<br>The lease will be granted once all works are completed by both the Site Manager and the Council.<br>The Site Manager continues to pay the fee to the Council, with alternative arrangements for payment provided due to closure of offices caused by the Covid-19 outbreak. |



*Action Plan for the Significant Governance Issues identified during 2019-2020 which will need addressing in 2020-2021*

Based on the Council's established risk management approach, the following issues have been assessed as being key for the purpose of the 2019-2020 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

| 2019-2020 - Key areas and actions for implementation | Responsibility and expected implementation date |
|---|---|
| *Savings Targets*<br>In March 2020 the Council approved a balanced budget for 2020-2021 without the use of general reserves. It is estimated that further savings of £15.5 million are required in 2021-2022 rising to £20.2 million in 2022-2023.<br>It is important to note that a number of assumptions have been made with regards to the level of resources that will be available to the Council, and that there continues to be a considerable amount of uncertainty with regards to future funding streams for | Director of Finance<br>March 2021 |

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| local authorities over the forthcoming Comprehensive Spending Review period. At the point that further information is known it will be incorporated into future reports to Councillors. Any reduction in the Government's allocation of funding to the Council would have significant detrimental impact and further increase the budget deficit forecast of the medium-term.<br><br>Due to Covid-19, government have announced that the Review of Relative Needs and Resource will not be undertaken this year. It is understood that a spending review will take place, but we would anticipate that this will be for one year only.<br><br>Council approved that work starts on developing budget reduction and income generation proposals for 2020-2021 onwards in line with the Five-Year Financial Strategy, with progress reported back to Cabinet in July 2020.<br><br>Due to Covid-19 it has not been possible to progress this work. Further we have identified that budget reductions and income generation proposals built into the budget for 2020-2021 may not be deliverable at this stage.<br><br>The Council must continue to provide information to MHCLG and seek funding to mitigate the impact of Covid-19 both for 2020-2021 and the medium term.<br><br>The Council must also continue to look at budget reduction proposals to mitigate the impact of Covid-19 and to address the medium-term deficit. | |
| *Procurement, Contract Management and Monitoring*<br>This will remain ongoing due to the changes to regulation and legislation, particularly in the light of our exit from the EU. | Director of Finance<br>March 2021 |
| *Strategic Asset Plan*<br>Review and Update the Strategic Asset Plan and Action Plan taking into account the Our Space programme proposals. This programme includes asset rationalisation of the portfolio determining future direction of travel for each asset e.g. retain, dispose or reuse (i.e. community asset transfer, public sector partnering). The programme will identify and ensure that only those land and property assets required for operational or strategic purposes are to be retained and that a clear plan for their development and operation is in place (including future investment requirements). This will result in a more cost-efficient property estate delivering running cost efficiencies, reduction in carbon emissions and potential for achieving capital receipts. Consideration will also be given as to how new income can be generated from property assets whilst protecting the existing income. | Head of Assets<br>December 2020 |

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| *Civic Halls*<br>Delivery of the Civic Halls in accordance with any set budget and in line with the set timeline will be closely monitored by the Council throughout and the Council will ensure that the contracts in place are complied with. | Director of Regeneration<br>March 2021 |
| *GDPR*<br>This is an ongoing issue in terms of ensuring compliance with GDPR through regular training and continuing to provide transparent reporting of the levels of compliance with GDPR. | Director of Governance – March 2021 |
| *Constitution review*<br>Review and modernise the Council's constitution and decision-making processes – this includes reviewing the Council's Code of Conduct and ensuring that the constitution is easy to understand, easy to access and supports appropriate and effective decision making, building on the positive approach to decision making that has taken place during the Covid-19 pandemic. This also includes ensuring that there is an effective approach to policy development and scrutiny within the Council. | Director of Governance – December 2020 |

*Future Assurance*

A progress report on the implementation of the above actions from the key areas will be produced by Audit Services and reported to the Audit and Risk Committee during 2020-2021.

*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.

Ian Brookfield, Leader of the Council

Date:

Tim Johnson, Chief Executive

Date:

## Glossary

### Academy

A school which chooses to opt out of a local authority's control and maintain its own funding.

### Accruals (Accrual Accounting)

Refers to the fundamental accounting principle that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

*See Receivables, Payables*



### Actuarial/Actuary

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

### Arm's Length Management Organisation

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

### Amortisation

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

*See Depreciation*

**Asset**

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

*See Non-Current Asset*

**Bad Debt Provision**

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

**Budget**

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

**Business Rates or National Non-Domestic Rates (NNDR)**

Businesses across the country have to pay business rates. The government decides how much they should pay, and Local Authorities collect the money. In Wolverhampton, the amount collected is shared on the following basis:

• City of Wolverhampton Council 99%

• West Midlands Fire and Rescue Authority 1%

**Capital Adjustment Account**

An account whose purpose is to serve as a balancing mechanism between the different rates at which assets are depreciated in line with the Code of Practice and are financed under the capital controls regime. It is shown in the Balance Sheet as a reserve, although it does not represent funds available for future expenditure.

*See Capital Financing Requirement*

**Capital Expenditure**

Expenditure on the acquisition of property, plant and equipment, or expenditure which adds to, and not merely maintains, the value of an existing asset.

*See Deferred Charge, Property, Plant and Equipment*

**Capital Financing Requirement**

An amount calculated as Non-Current Assets less the balances on the Capital Adjustment Account.

*See Minimum Revenue Provision*



**Capital Programme**

The plan of approved spending on fixed assets (which includes assets that do not belong to the Council, under certain circumstances).

**Capital Receipt**

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

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is a UK accountancy body, specialising in the finances of the public sector. CIPFA is responsible for determining the accounting rules and procedures that apply to local authorities.

*See Statement of Recommended Practice, Code of Practice*

**Code of Practice on Local Authority Accounting**

The set of accounting principles and practices developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

*See International Financial Reporting Standards, Chartered Institute of Public Finance and Accountancy (CIPFA)*

**Collection Fund**

A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of National Non-Domestic Rates collected and payments to the General Fund and other public bodies.

**Community Assets**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**Consistency**

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

**Contingent Asset**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

**Contingent Liability**

A contingent liability is either:

a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or

b) A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and Democratic Core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

**Council Tax**

A tax paid by residents of the authority to the Council, based on the value of their property, to be spent on local services.

**Current Asset**

An asset held for a short period of time, for example cash in the bank, stocks and receivables.

**Dedicated Schools Grant**

Schools are funded separately from other Council services. The Council receives a Dedicated Schools Grant (DSG) direct from the Government, which is paid over to schools.

**Deficit**

This occurs when spending exceeds income (opposite of surplus).

**Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

**Defined Contribution Scheme**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**De 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**

Those events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the statement of accounts is signed by the responsible officer.

**Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Existing Use Value (Social Housing)**

The value of a dwelling, given that, were it to be sold, the new purchaser must rent out the property, and set rents at social housing (i.e. below open market) levels.

*See Vacant Possession Value*

**Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Fees and Charges**

Income arising from the provision of services, for example the use of leisure facilities.

**Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of property, plant and equipment to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

*See Operating Lease*

**Financial Instrument**

Any contract that gives to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial Year**

This runs from 1 April to 31 March.

**General Fund**

The fund to which the cost of all services of the Council (except for Housing Revenue Account services) is charged. The net cost of the General Fund is met by Council Tax, Governments Grants and NNDR.

**Going Concern**

The concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

**Government Grants**

Assistance by government and inter-governmental agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the Council.

**Heritage Assets**

Assets that the Council intends to hold for the purpose of informing or educating the public about their heritage, and which are not held for their investment value. Examples include collections of antiques in museums.

**Housing Revenue Account (HRA)**

A ring-fenced account detailing the expenditure and income arising from the provision of council housing, as required by the Local Government and Housing Act 1989.

**Impairment**

A diminution in value of a property, plant and equipment resulting from amongst other things, obsolescence or physical damage. To comply with accounting standards the Council undertakes annual reviews of its assets to identify any assets which have been impaired.

*See Property, Plant and Equipment*

**Income and Expenditure Account/Statement**

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

**Infrastructure Assets**

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

**Intangible Assets**

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

**International Accounting Standards (IAS)**

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

*See International Financial Reporting Standards*

**International Financial Reporting Standards (IFRS)**

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

**Inventories**

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

**Investments**

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

**Investment Properties**

Interest in land and/or buildings:

- In respect of which construction work and development have been completed.
- Is held for its investment potential, any rental income being negotiated at arm's length.

**Levy**

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

**Liabilities**

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

*See Accruals, Payables*

**Major Repairs Reserve**

A reserve to pay for large scale repairs to council houses.

**Materiality**

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

**Provision for the Redemption of Debt (MRP)**

A minimum amount determined according to a formula approved by the Council, which must be charged to the revenue account, for debt redemption or for the discharge of other credit liabilities.

*See Capital Financing Requirement*

**National Non-Domestic Rates (NNDR)**

Rates which are levied on business properties and collected by the Council and accounted for on an agency basis. These funds are then distributed between the General Fund and other public bodies.

**Net Book Value**

The amount at which property plant and equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

*See Property Plant and Equipment*

**Net Current Replacement Cost**

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**Net Realisable Value**

The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

**Net Worth**

A monetary value, defined as the value of the Council's assets less the value of its liabilities. This is the "bottom line" of the Balance Sheet.

**Non-Current Asset**

An item, for example land, buildings and vehicles, which yield benefits to the Council and the services it provides over a period of more than one year.

**Obsolescence**

The term used to describe an asset which no longer has any value to an organisation due to changes in the organisation's operating environment or the emergence of overwhelmingly superior alternatives to that asset.

*See Impairment*

**Operational & Non-Operational Assets**

Operational Assets are those that are used directly in providing Council services. Non-operational assets are assets held for any other purpose, for example for investment or where they are no longer used and have been earmarked for disposal.

*See Property Plant and Equipment*

**Operating Leases**

Leases other than a finance lease.

*See Finance Leases*

**Payables**

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

*See Accruals, Receivables*



**Precept**

The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the Council on their behalf. A body which can set a precept is called a preceptor.

**Premium**

An amount charged by a lender (over and above the outstanding principal) on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the lender.

*See Discount*

**Prior Year Adjustments**

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Private Finance Initiative (PFI)**

A government initiative which enables authorities to carry out capital projects through partnership with the private sector.

**Property, Plant and Equipment**

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

*See Capital Expenditure*



**Provisions**

Amounts set aside in respect of a liability of uncertain timing or amount, where a reliable estimate of the potential value can be made.

**Prudence**

This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

**Receipts in Advance**

Money received before the end of the financial year, but which relates to the following financial year.

**Receivables**

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

*See Accruals, Payables*

**Related Party**

There is a detailed definition of related parties in FRS 8. For the Council's purposes, related parties are deemed to include:

- The elected members of the Council and their partners.
- The senior officers of the Council.
- The companies in which the Council has an interest.
- Central Government and preceptors of Wolverhampton's Collection Fund.
- 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;

- An employer's decision to terminate an employee's employment before the normal retirement date; or
- An employee's decision to accept voluntary redundancy in exchange for those benefits, 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.

**Ring-Fenced**

Certain accounts, such as the Collection Fund, must be maintained separately outside the General Fund as a statutory requirement.

**Service Reporting Code of Practice (SERCOP)**

This guidance is issued by CIPFA and determines the costs which should be shown in the service lines in the Consolidated Income and Expenditure Statement, by determining which types of cost and income should be shown against which service. This promotes comparison between authorities by readers of the accounts.

*See Income and Expenditure Account/Statement*

**Trust Fund**

A fund administered by the Council on behalf of others for such purposes as charities and specific projects.

**Usable Reserves**

Reserves that can be applied to fund expenditure or reduce local taxation.

**Unusable Reserves**

Amounts that have come about purely from accounting adjustments and are not therefore available to spend.

**Useful life**

The period over which the Council will derive benefits from the use of an asset.

**Vacant Possession Value**

The market value of a property were it to be sold with no unusual restrictions on the occupation of the property, or the level of any rents or charges made for its use.

*See Existing Use Value (Social Housing)*

**Work in Progress**

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

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Appendix C

Our ref:

CITY OF WOLVERHAMPTON COUNCIL

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
BIRMINGHAM
B4 6AT

Date:

Dear Sirs

**City of Wolverhampton Council**
**Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of City Wolverhampton Council its subsidiary undertakings, Wolverhampton Homes Limited and City of Wolverhampton Housing Limited for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these matters brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

xvi. The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in many sectors.

As at the valuation date, our valuers consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base judgement.

Their valuations are therefore reported on the basis of "material valuation uncertainty"' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to these valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, the Council will be keeping the valuation of the portfolio under frequent review.

For avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

**Information Provided**

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit and Risk Committee at its meeting on 26 November 2020.

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

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