Audit Committee

22 September 2014

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

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

Membership

Chair Cllr Keith Inston (Lab)
Vice-chair Cllr Christine Mills (Con)

Labour	**Conservative**	**Independent Member**
Cllr Harbans Bagri	Cllr Wendy Thompson	Mr Mike Ager
Cllr Philip Bateman		Mr Terry Day
Cllr Alan Bolshaw		
Cllr Dr Michael Hardacre		
Cllr Jasbir Jaspal		

Quorum for this meeting is two Councillors.

Information for the Public

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

Contact Dereck Francis
Tel/Email Tel: 01902 555835 or dereck.francis@wolverhampton.gov.uk
Address Democratic Support, Civic Centre, 2nd floor, St Peter's Square, Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

Website http://wolverhampton.moderngov.co.uk
Email democratic.support@wolverhampton.gov.uk
Tel 01902 555043

Please take note of the protocol for filming, recording, and use of social media in meetings, copies of which are displayed in the meeting room.

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

Agenda

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

1 **Apologies for absence**

2 **Declaration of interests**

3 **Minutes of previous meetings** (Pages 1 - 12)
(a) Audit Committee – 14 July 2014
[For approval]

(b) Audit (Monitoring of Audit Investigations) Sub-Committee – 21 July 2014
[For information]

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

5 **Work Programme 2014/15** (Pages 13 - 14)
[For information]

DECISION ITEMS

FINAL ACCOUNTS/ANNUAL GOVERNANCE STATEMENT:
6 **Audited Statement of Accounts - 2013/14** (Pages 15 - 244)
[To approve the formal publication of the accounts]

EXTERNAL AUDIT REPORTS AND INSPECTION:
7 **ISA 260** (Pages 245 - 290)
[To note the report]

8 **Financial Resilience Report of PricewaterhouseCoopers**
[To note the report][**REPORT TO FOLLOW**]

RISK MANAGEMENT - ASSURANCE ON CORPORATE RISKS:
9 **Corporate Risk Register and Assurance Map** (Pages 291 - 304)
[To receive the latest summary of the corporate risk register and the main sources of assurance available against the corporate risks]

INTERNAL AUDIT REPORTS:
10 **The Introduction of Agresso** (Pages 305 - 312)
[To receive an update on the introduction of the Agresso system]

11 **Internal Audit Charter - Annual Review** (Pages 313 - 318)
[To approve the charter]

12 **Internal Audit Update - Quarter One** (Pages 319 - 326)
[To note the contents of the update]

13 **Internal Audit Staffing Arrangements** (Pages 327 - 330)
[To note the current staffing arrangements]

14 **CIPFA Audit Committee Update** (Pages 331 - 348)
[To note the latest update]

15 **Payment Transparency** (Pages 349 - 350)
[To note continued compliance with the Code of Recommended Practice]

16 **Budget Update and Review** (Pages 351 - 356)
[To bring to the Committee’s attention information about the Council's finances recently been reported to the Cabinet and Cabinet (Resources) Panel]

17 **Independent Review of Process for medium term Financial Strategy and Budget** (Pages 357 - 382)
[To review and follow up the recommendations from the Independent Review of Process for the Medium Term Financial Strategy and Budget]

This page is intentionally left blank

Meeting of the Audit Committee
Minutes - 14 July 2014

Attendance

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

Independent Members
Mike Ager
Terry Day

Employees

Peter Farrow	Head of Audit
Chris Forrester	Finance Manager
Dereck Francis	Democratic Support Officer
Keith Ireland	Strategic Director, Delivery
Richard Morgan	Senior Audit Manager
Mark Taylor	Assistant Director, Finance

External Auditors

Richard Bacon	PricewaterhouseCoopers
Sophia Mouyis	PricewaterhouseCoopers

Part 1 – items open to the public and press

Item No. *Title*

MEETING BUSINESS ITEMS

1 **Apologies for absence**
Apologies for absence were submitted on behalf of Cllr Dr Michael Hardacre.

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

3 **Minutes of previous meetings**

(a) Audit Committee – 10 March 2014

Resolved:

That subject to the substitution of the name ‘Alan’ for the name ‘Ian’ in the third paragraph on page 5, the minutes of the meeting held on 10 March 2014 be approved as a correct record and signed by the Chair.

(b) Audit (Monitoring of Audit Investigations) Sub-Committee – 28 April 2014

Resolved:

That the minutes of the meeting held on 28 April 2014 be noted.

4 **Matters arising**

With reference to Minute No. 8 (Internal audit update quarter three) Peter Farrow, Head of Audit confirmed that a letter had been circulated and a full response had now been received from heads of service to the Audit Service questionnaires about appraisal interviews.

With reference to Minute No. 8 (Corporate Risk Register) Cllr Wendy Thompson reported that she had not received a response to her question ‘whether the Council was providing Saturday classes to support children to pass their maths examination earlier. The Chair asked that the response be progressed.

5 **Internal Audit Report - Performance Appraisal Scheme**

The Committee discussed the report from an internal audit review of the Council’s new performance appraisal scheme.

Cllr Phil Bateman commented that the Council’s employee personal development policy went hand in hand with the performance appraisal scheme and would be key to the Council moving forward. Therefore managers must not lose sight of the personal development of employees when they undertake a performance appraisal. Peter Farrow confirmed that personal development was one part of the appraisal process along with work planning for the year ahead.

Mike Ager, Independent Member requested more detail on who held responsibility for performance appraisals within the Council and on the targets and deadlines for implementing the suggested/agreed actions to address the issues identified by the review. He requested that the appropriate employee update the Committee on these two points.

The Chair reported that the views of the Committee on the low take up of the Council’s performance appraisal scheme were well known. He supported the proposal for the appropriate senior employee to attend the Audit (Monitoring of Audit Investigations) Sub Committee meeting on 21 July 2014 to discuss the review report and its recommendations further.

Referring to one of the suggested/agreed actions from the review, Cllr Christine Mills stated that managers should be ‘engaging’ with appraisals and the various training/policy opportunities available to them to perform appraisals rather than being ‘encouraged’ to do so.

In response to the Committee's comments Keith Ireland, Strategic Director Delivery reported that ultimately he was responsible for this area. He reported that he believed there was an element of underreporting of appraisal interview meetings but that the figures were disappointing. He informed the Committee that the issue for him was the quality of the conversations taking place between managers and employees during an appraisal. Following completion of the Equalities training for employees and councillors the next focus would be performance culture and appraisals.

Cllr Alan Bolshaw reported that through his conversations with Council employees some found the appraisals process overly bureaucratic and too tightly structured with a one size fits all approach. Also at a time when employees are leaving the Council some employees have said that they have more important things to think about than to plan their work for the next year and their personal development needs.

In response to these points Keith Ireland reported that the Council was a corporate body with a single policy for all its employees. In the application of the policy there was flexibility as to how the appraisal is conducted. In Service Facilities where some employees work small contracted hours, team goals are set and social workers have supervision instead of appraisal. He also reported that the appraisals process had been slimmed down and was not overly bureaucratic. Moving forward the Council was making progress and there were some pockets of good practice within the organisation but in the main it was not good and the Council was nowhere near where it needed to be. Employees would need to be more performance orientated and this transformation would take two to three years.

Peter Farrow also reported that Audit Services would undertake a follow up review of the appraisals process in six months' time, the results of which would be reported back to the Committee.

Resolved:

That the Cabinet Member for Performance and Governance and the Strategic Director for Delivery be requested to attend the meeting of the Audit (Monitoring of Audit Investigations) Sub-Committee to continue the discussion on the internal audit review report.

6 **Annual Review of the Effectiveness of Internal Audit**

Peter Farrow, Head of Audit presented a report that provided the Committee with sources of information and measures in place in order to assist it in being able to reach a conclusion on the adequacy and effectiveness of the Internal Audit Service.

In response to a question Peter Farrow confirmed that every five years a public service organisation would be required to obtain an external view on the effectiveness of its internal audit.

Resolved:

That the annual review of the effectiveness of internal audit be approved in order to discharge the Committee's responsibility under Regulation 6 of the Accounts and Audit Regulations 2011, where "the relevant body shall, at least once in each year, conduct a review of the effectiveness of internal audit."

7 **Audit Committee Annual Report - 2013/14**

Peter Farrow, Head of Audit presented the report which summarised the main areas of work undertaken by the Committee during 2013/14.

Cllr Phil Bateman asked whether there were any competitions for this type of report to highlight where there are pockets of good practice within the organisation. Peter Farrow reported that the Chartered Institute of Public Finance and Accountancy ran an annual competition and councils are invited to make a bid for an award. If the opportunity arises in the next awards process he undertook to seek the views of the Committee on whether it would wish to make a submission.

Resolved:

That the Audit Committee Annual Report for 2013/14 be endorsed and referred to Full Council for approval.

8 **Draft Statement of Accounts 2013/14**

Mark Taylor, Assistant Director, Finance presented for information, the draft Statement of Accounts for 2013/14, which he had approved and was subject to audit. The report provided an overview of the document and a summary of the Council’s financial performance for the year and its position at 31 March 2014.

During the ensuing discussion, Cllr Christine Mills sought clarification on the amount spent on redundancy payments. Mark Taylor undertook to clarify the figure.

Cllr Phil Bateman reported that he took some comfort from the Council’s medium term financial strategy particularly the investment the Council planned make on housing over the next 30 years.

Resolved:

1. That it be noted that the Assistant Director Finance approved the Draft Statement of Accounts 2013/14 on 30 June 2014, as required by the Accounts and Audit (England) Regulations 2011.

2. That it be noted that the 2013/14 Draft Statement of Accounts is to be audited by PricewaterhouseCoopers LLP from July through to September, and that any material changes required as a result of the audit will be reported to the Audit Committee.

3. That it be noted that formal approval by the Council and publication of the 2013/14 Statement of Accounts is required by 30 September 2014 (Accounts and Audit (England) Regulations 2011).

4. That it be noted that the Statement of Accounts incorporates a copy of the Annual Governance Statement as required by the Accounts and Audit (England) Regulations 2011.

9 **Annual Governance Statement - 2013/14**

The Committee received, for review and comment, the Council’s Annual Governance Statement for 2013/14 which had been signed by the Leader of the Council and the Chief Executive.

Cllr Wendy Thompson reported that the governance statement was realistic. She noted the reference in the statement to the Council's Section 151 post not having the usual status as Section 151 posts on other councils. She also welcomed the push within the statement on contract management and monitoring and the recognition to the Council's vision for and strategic approach to school improvement.

Resolved:

That the contents of the Council's Annual Governance Statement for 2013/14 be noted.

10 **External Audit Progress Report 2013/14**

Richard Bacon and Sophia Mouyis from PricewaterhouseCoopers presented their update on progress in delivering their audit plan, their view of progress of the closedown process, the results of their review of the work of internal audit and detail about some recent publications from PwC's Public Sector Research Centre.

Resolved:

That the report be received and noted

11 **Corporate Risk Register**

The Committee received, for information, a report on the Council's corporate risk register containing the key risks the Council faces and how it could gain assurance that the risks were being mitigated.

Referring to risk ref 5 'FutureWorks', Mike Ager, Independent Member noted that the risk category had improved from red to amber. He sought assurance that the operation of the new finance system (Agresso) was improving following the reported problems since it went live. Keith Ireland, Strategic Director Delivery reported briefly on areas where problems had been experienced following the system going live and the action taken by employees to address them. He undertook to present a report to the next meeting on the implementation of the system and the action taken to resolve problems encountered. He also informed the Committee that with any major transformation programme problems would be encountered. By the end of the year the Agresso system would be fully operational and he indicated that the Committee would be pleased with the outcome. He also offered to arrange for the Committee to receive a presentation on the Agresso system from Lisa Taylor and her team in FutureWorks. The Chair reported that he was sure that the Committee would take up the offer.

In response to questions from Cllr Alan Bolshaw, Richard Bacon PricewaterhouseCoopers gave an independent view of the introduction of the Agresso system and the external auditor's involvement and support to the project. In doing so he informed the Committee that the project had gone well and that on average it had been managed better than other Agresso system introductions that he had witnessed.

In response to a request from members of the Committee for more information on assurance on the issues raised as well as in the areas of Looked After Children and budgetary control relating to children, young people and families, Peter Farrow undertook to present to the next meeting the assurance map.

Resolved:

1. That the latest summary of the Council's corporate risk register be noted.

2. That reports be submitted to the next meeting of the Committee on:
   a. The introduction of the Agresso system
   b. The assurance map.

12 **Annual Internal Audit Report - 2013/14**

Peter Farrow, Head of Audit outlined the salient points of the report which aimed to provide the Committee with an annual internal audit opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control processes.

Referring to the section of the report on an internal audit exercise regarding information governance in schools, Cllr Alan Bolshaw asked about the action that would be taken against schools in the event of a poor response to Audit Service questionnaires. Peter Farrow reported that when responses are poor the issue would be brought back to the Audit Committee. He went on to inform the Committee that Internal Audit Service had a good relationship with schools and would be able to contact them to chase any required response. Given the limited time the service had to undertake the audit exercise, it was felt that a 50% response provided a good snapshot and a feel for schools' general knowledge and understanding of information governance.

Cllr Wendy Thompson reported that a number of good employees had recently left Audit Services. She requested a report on the staffing of the Service to provide her and the Committee with the assurance that staffing levels were at an optimum level.

Resolved:

1. That the contents of the Annual Internal Audit Report and the overall opinion that "based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Council by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Council has adequate and effective governance, risk management and internal control processes" be noted.

2. That a report on the staffing of Internal Audit be submitted to the next meeting.

13 **Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committee Update - Issue 13**

The Committee received, for information, the latest of regular briefing issued by CIPFA for audit committee members in public sector bodies.

Peter Farrow, Head of Audit informed the Committee of changes in the near future to the Council's external auditors. Richard Bacon confirmed that PricewaterhouseCoopers would continue to undertake this and next year's audit. Thereafter Grant Thornton would be the Council's new external auditors for the next two years.

Resolved:

That the contents of the latest CIPFA Audit Committee Update, Issue 13 – helping audit committees to be effective be received and noted.

14 **Payment Transparency**

Peter Farrow, Head of Audit updated the Committee with the current position regarding the Council's publication of all its expenditure activity since the last meeting of the Committee.

Resolved:

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

This page is intentionally left blank

Meeting of the Audit (Monitoring of Audit Investigations) Sub-Committee Minutes - 21 July 2014

Attendance

Members of the Sub-Committee
Cllr Keith Inston (Chair)
Cllr Dr Michael Hardacre
Cllr Christine Mills (Vice-Chair)
Cllr Wendy Thompson

Members of the Audit Committee
Cllr Harbans Bagri
Cllr Philip Bateman
Cllr Alan Bolshaw
Cllr Jasbir Jaspal

Employees

Dereck Francis	Democratic Support Officer
Keith Ireland	Strategic Director, Delivery
Mark James	Fraud Manager
Katy Morgan	Client Lead Auditor
Richard Morgan	Senior Audit Manager
Mark Taylor	Assistant Director, Finance
Mark Wilkes	Client Lead Auditor

Part 1 – items open to the press and public

Item No. *Title*

MEETING BUSINESS ITEMS

1 **Apologies for absence**
Apologies for absence were submitted on behalf of Mike Ager and Terry Day (Independent members).

2 **Declarations of interests**
Cllr Dr Mike Hardacre declared a personal interest in agenda items 5 and 7 in so far as they relate to the City of Wolverhampton College, the Central; Learning Partnership Board and Woodthorne Primary School.

3 **Minutes of the previous meeting (28 April 2014)**
Resolved:
That the minutes of the meeting held on 28 April 2014 be approved as a correct record and signed by the Chair.

4 **Matters arising**

There were no matters arising from the minutes of the previous meeting.

5 **Audit Services - Counter Fraud Report July 2014**

Mark Wilkes presented the report which updated the Sub Committee on the current counter fraud activities undertaken by the Counter Fraud unit within Audit Services.

Resolved:

That the consents of the latest Internal Audit counter fraud update be noted.

6 **Internal Audit Report - Performance Appraisal Scheme**

The Sub-Committee discussed the report on an internal audit review of the Council's performance appraisal scheme.

Cllr Paul Sweet, Cabinet Member for Performance and Governance had been invited the meeting to discuss the report but owing to a misunderstanding regarding the date of the meeting he was unable to attend.

Keith Ireland updated the Sub Committee on action that had been taken following the discussion at Audit Committee and Full Council on 14 and 16 July respectively regarding the appraisals process. An email had been circulated to all service heads about appraisals and the expectations from the Strategic Executive Board (SEB) of managers to undertake appraisal of their staff. The appraisals process had been reviewed, a report on which would be submitted to this week's SEB meeting. He updated the meeting on the latest available figures on appraisals undertaken in each directorate across the Council. He also reported that he was working on the performance culture within his Directorate and that appraisal was part of that work.

Cllr Wendy Thompson commented that she did not feel there was the will of the political leadership to see the appraisals undertaken.

Cllr Dr Mike Hardacre reported that he did not understand why appraisals were not taking place. He and other members of the Sub Committee remarked that disciplinary action should to be taken against those in cases where appraisals were not happening. He also reported that there was a danger that there was a concentration on the negatives of appraisal when it should be seen as a positive experience.

Cllr Bateman acknowledged that there was a willingness to move forward on this issue in order to get the Council to where it wants to be but it could not be underestimated why the Council was in the position it was today.

Resolved:

That further discussion on the internal audit review report and the Executive's response and plan for improvement be deferred to a meeting in September 2014 and the Cabinet Member for Governance and Performance be requested to attend the meeting.

7 **Exclusion of press and public**

Resolved:

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

Item No.	*Title*	*Applicable paragraph*
7	Audit Investigations Update	1, 2, 3

Part 2 - exempt items, closed to public and press

8 **Audit Investigations Update**

The Sub Committee received updates on the current audit investigations.

Referring to case reference IL17W, Cllr Dr Michael Hardacre asked what recourse was available to the Council if it was unable to obtain answers to its questions. Keith Ireland suggested that with the Sub-Committee's agreement he would ask the Assistant Director, Finance refer it to the Council's external auditors.

The Sub Committee asked that a check be made to confirm that action had been taken following the audit investigations referred to in case reference IL671. During the discussion on this update it was confirmed that the schools' external HR provider would be providing the HR support for the disciplinary proceedings referred to in the report.

Resolved:

1. That the current position with regard to the audit investigations be noted.

2. That in connection with case reference IL17W – the Assistant Director Finance be requested to refer the matter to the Council's external auditors and that a lesson's leaned report be submitted to the next meeting of the Sub-Committee.

This page is intentionally left blank

Wolverhampton City Council

Audit Committee Work Programme 2014/15

Agenda Item: 5

Committee Meeting Date All at 2.00pm	Final Accounts / Annual Governance Statement	Internal Audit Reports	Risk Management	External Audit Reports and Inspection	Other Governance Issues
22 September 2014	2013/14 Audited Statement of Accounts	Internal Audit Update Payment Transparency Internal Audit Staffing Internal Audit Charter Review CIPFA Audit Committee Update	Corporate Risk Register and Assurance Map	Annual Report to those charged with Governance (ISA 260)	Sub-Committee: Minutes and Matters Arising The Introduction of Agresso Independent Review of the Medium Term Financial Strategy Budget Update and Review
15 December 2014	Annual Governance Statement Update	Internal Audit Update Payment Transparency Review of Fraud Related Policies	Corporate Risk Register and Assurance Map	Annual Audit Letter	Sub-Committee: Minutes and Matters Arising Benefits Fraud Sanctions Report 2013/14 Budget Update and Review
9 March 2015	2014/2015 Statement of Accounts Progress update	Internal Audit Update Payment Transparency Internal Audit Plan 2015/16 Review of Fraud Related Policies	Corporate Risk Register and Assurance Map	External Audit Plan 2015/16	Sub-Committee: Minutes and Matters Arising Audit Committee Self-Assessment Workshop Audit Committee Terms of Reference Review

Monitoring of Audit Investigations
Sub-Committee Work Programme 2014/15

Sub-Committee Meeting Date All at 2pm	Monitoring of Audit Investigations: to include details of completed investigations, implementation of recommendations, fraud risk register, pro-active testing, NFI updates, raising fraud awareness events, benchmarking and other fraud related activities
3 November 2014	Counter Fraud Report Audit Issues Update
2 February 2015	Counter Fraud Report Audit Issues Update
27 April 2015	Counter Fraud Report Audit Issues Update

Agenda Item No: **6**

Audit Committee

22 September 2014

Report title	Audited statement of accounts 2013/14
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Strategic Finance
Accountable employee(s)	Mark Taylor — Assistant Director Finance Tel — 01902 556609 Email — mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	None

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Approve the formal publication of the 2013/14 Statement of Accounts, as required by the Accounts and Audit Regulations 2011, which require publication by 30 September.

2. Delegate authority to the chair of the audit committee to agree subsequent changes to the Statement of Accounts in consultation with the Assistant Director Finance should there be any audit adjustments.

Recommendations for noting:

The Committee is asked to note:

1. That the council's external auditors intend to issue an unqualified opinion on the Statement of Accounts 2013/14, subject to the outcomes of a few remaining elements of audit work.

2. That the external auditors have not identified any material errors in the draft accounts and there are no uncorrected misstatements.

1.0 Purpose

1.1 To update members of the committee on the audit of the 2013/14 Statement of Accounts.

2.0 Background

2.1 The draft Statement of Accounts was certified by the Assistant Director Finance on 30 June 2014, as per the statutory deadline. It was subsequently presented to the Audit Committee on 14 July 2014.

2.2 The draft was subject to audit by the council's external auditors, PricewaterhouseCoopers (PwC), which has been taking place during the last two months, and is now nearing completion. The council is required by law to publish the Statement of Accounts by 30 September 2014 (Accounts and Audit Regulations 2011).

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

2.4 The format of the Statement of Accounts is governed by the Code of Practice on Local Authority Accounting (the Code), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are prepared in accordance with International Financial Reporting Standards (IFRS). The only significant change to the Code for 2013/14 was IAS 19; the accounting for defined benefit schemes and termination benefits.

3.0 Structure of the statement of accounts

3.1 The purpose of the Statement of Accounts is to give all interested parties clear information about the council's finances. In order to make the Statement of Accounts as useful as possible to its intended audience, the Code requires:

(a) All local authority statements to follow a common pattern of presentation;
(b) Interpretation and explanation of the Statement of Accounts;
(c) The Statement of Accounts to be written in plain English as far as possible.

3.2 The Statement of Accounts comprises the following:

(a) **Introduction to the Statements,** which provides a brief overview of each of the main parts of the statement.
(b) **Financial Performance 2013/14:** this section provides a summary of the council's financial performance for the year, as shown in Cabinet outturn reports.
(c) **The Medium Term Financial Strategy**: this section provides a summary of the council's medium term financial strategy, for each of the General Fund, the Housing Revenue Account and the Capital Programme.
(d) **Statement of Responsibilities**: this sets out the respective responsibilities of the council and the Section 151 Officer with regard to the accounts.

(e) **The Auditor's Report:** this will be provided by PwC following the audit, and gives their opinion on whether the Council's financial statements present fairly its financial position and performance for the year, and their conclusion on the council's Use of Resources arrangements.
(f) **The Financial Statements:** this section comprises the financial statements themselves, which include:

   (i) **Comprehensive Income and Expenditure Statement:** this statement shows all the income, expenditure, gains and losses of the council during the year prepared on an accounting basis. It includes several items which are not charges or credits to the council's funds, as statutory provisions exist to neutralise their effect on Council Tax and Housing rents.
   (ii) **Balance Sheet:** this statement reports the council's financial position at the year end. It shows the balances and reserves at the council's disposal, the fixed and current assets employed in its operations and the long-term indebtedness of the council.
   (iii) **Movement in Reserves Statement**: this statement analyses the movements across all of the council's reserves, including the General Fund and HRA balances.
   (iv) **Cash Flow Statement:** this statement summarises the inflows and outflows of cash during the year.
   (v) **Notes to the Core Financial Statements:** this is a series of notes that are required by statute or that give additional information on figures in the main statements. The last of these notes is the Statement of Accounting Policies, which sets out the policies and, where appropriate, estimation techniques used by the council in preparing its accounts.

(g) **The Housing Revenue Account (HRA) Statements:** comprising the HRA Income and Expenditure Account, the Statement of Movement in the HRA Balance, and Notes to the HRA Statements.
(h) **The Collection Fund Statements:** comprising the Collection Fund Income and Expenditure Account and the Notes to the Collection Fund Statements.
(i) **West Midlands Pension Fund Statements**: although West Midlands Pension Fund is a separate entity and its accounts are not consolidated with the council's, the Code requires administering bodies such as Wolverhampton to include a summarised version of the Pension Fund accounts in their financial statements.
(j) **Annual Governance Statement:** This is a statement required by the Accounts and Audit (England) Regulations 2011 that outlines the council's governance arrangements.
(k) **Glossary:** explaining some of the terms used in the financial statements, particularly those that are not part of everyday English.

4.0 Key elements of the Audited 2013/14 Statement of Accounts

4.1 The net cost of providing services, shown in the Comprehensive Income and Expenditure Statement, was a deficit of £97.4 million. This compares to a deficit of £98.2 million for 2012/13. It is important to remember that this is prepared on an accounting basis and includes many transactions which are subject to statutory adjustment and do not impact on the council's usable reserves and therefore on the setting of council tax and housing rents.

4.2 The Comprehensive Income and Expenditure Statement also includes a number of other gains and losses on council assets/liabilities. These relate to revaluations of fixed assets and notional gains and losses on the council's 'share' of West Midlands Pension Fund's assets and liabilities. These items are responsible for very significant year-on-year changes: in 2013/14 they amounted to a net gain of £116.4 million, while in 2012/13 they caused a net loss of £129.1 million. Despite the size of these numbers and their significant impact on the accounts, it must be remembered that they are only included in order to comply with accounting requirements, and are reversed for statutory purposes.

4.3 The net worth of the council as shown on the Balance Sheet has increased to £387.3 million from £368.4 million. The main contributors to this are set out below:

	Comments	Change £m
Increases in Net Worth		
Fixed Assets	Expenditure on capital programme	93.1
	Revaluation of fixed assets	6.0
Current Investments	Increase in amount held in Money Market Funds and Deposit Accounts at year-end	8.0
Receivables/Payables	Net increase in receivables/decrease in payables	12.0
Pension Liability	Due primarily to changes in Actuarial assumptions and calculations (*)	89.8
Decreases in Net Worth		
Fixed Assets	Depreciation and Impairment Charges for the Year (*)	(85.0)
	Disposal of fixed assets	(74.4)
Borrowing	Net increase in borrowing during the year to fund capital expenditure	(44.8)

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

4.4 The net increase in the council's reserves for the year, as shown in the Movement in Reserves Statement, was £18.9 million. This is made up of an increase of £3.7 million in usable reserves, and an increase of £15.2 million in unusable reserves (unusable reserves are technical accounting reserves, usually reflecting statutory adjustments). This compares to a net decrease of £227.3 million in 2012/13 (£28.4 million decrease in usable reserves; £198.9 million decrease in unusable reserves).

4.5 The Movement in Reserves Statement shows the movement in the council's General Fund and HRA balances for 2013/14. The General Fund Balance increased by £11.1 million, standing at £27.0 million as at 31 March 2014. The HRA Balance did not change and remains at £5.0 million.

4.6 The HRA Income and Expenditure Account shows a surplus of £14.9 million for the year (2012/13 surplus of £9.3 million). This surplus was used to provide for the redemption of debt as part of the HRA's capital financing strategy to create headroom against the debt cap to fund capital expenditure in the future.

4.7 The HRA reserve stands at £5.0 million at 31 March 2014. The funds in this reserve can only be used to finance revenue expenditure against the HRA budget in accordance with statute.

4.8 The Collection Fund generated a surplus for the year of £700,000. This will be distributed between the preceptors. This includes a provision made this year against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at 31 March 2014.

4.9 The Group Comprehensive Income and Expenditure Statement shows a net deficit on the provision of services for the year of £99.4 million, compared to a net deficit of £100.5 million in 2012/13. The net loss for 2013/14 is made up of the council's net loss of £97.4 million and a net loss for Wolverhampton Homes of £2.0 million (2012/13: net loss of £98.2 million and £2.3 million respectively).

5.0 Outcomes of the Audit

5.1 The key outcomes of the audit of the Statement of Accounts are:
(i) PwC's opinion as to whether the statements give a true and fair view of the council and its group's financial position at the year end, and the income, expenditure and cash flows for the year there ended;
(ii) PwC's conclusion on the council's arrangements to secure economy, efficiency and effectiveness in its use of resources for the year in question;
(iii) A report which summarises the issues arising from the audit of the statements, including the pension fund accounts, and issues which they are formally required to report to Members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance". This report is presented under item 7 of the agenda.

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

5.3 Some minor audit and accounting issues were identified during the audit but PwC are satisfied that these are appropriately reflected and disclosed in the financial statements.

5.4 One deficiency in internal control was identified, namely that the records of building floor areas which underpin the revaluation exercise were not always up to date. After instructing surveyors to provide up to date measurements for a sample selection of properties and comparing the new measurements to those used in the valuation exercise, it was concluded that the base data used in the valuations resulted in a materially accurate valuation. Management has already put a new system in place to address the requirement for providing up to date supporting documentation for internal floor areas of buildings.

5.5 As a result of their work on the draft Statement of Accounts, other than a number of minor changes and additions to the disclosures, PwC have not identified any material errors in the draft accounts and there are no uncorrected misstatements.

6.0 Financial Implications

6.1 The statement of accounts is one of the most important financial documents that the council produces. The statement, and the forthcoming audit of those statements by the external auditors, is fundamental to the accountability and transparency of the council's finances.

[CF/14092014/K]

7.0 Legal implications

7.1 The Accounts and Audit (England) Regulations 2011 require the 2013/14 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 30 June 2014 and published by 30 September 2014.

[TS/15092014/F]

8.0 Equalities implications

8.1 There are no equality implications arising from this report.

9.0 Environmental implications

9.1 There are no environmental implications arising from this report.

10.0 Human resources implications

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

11.0 Corporate landlord implications

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

12.0 Schedule of background papers

Draft Statement of Accounts 2013/14, report to Audit Committee, 14 July 2014

.

This page is intentionally left blank

Statement of Accounts

2013/14

www.wolverhampton.gov.uk

Wolverhampton City Council

CONTENTS

1. INTRODUCTION TO THE STATEMENTS

Important note for readers of the accounts

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

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

It is the legal rules that must be used when calculating budget requirements, council tax and housing rents. As a result, all of the council's internal reporting and decision-making is based purely on accounts prepared under the legal rules, and the only time it prepares accounts that comply with the accounting rules is when it prepares this document. It is crucial to bear this in mind when reading the statements. In particular, it should be remembered that figures which have been prepared under the accounting rules may have no practical meaning or use in the context of how the council actually manages its finances.

The purpose and contents of this document

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

Section 2 provides a summary of the council's financial performance for 2013/14, and key items of interest in the accounts. Section 3 provides an outline of the council's medium term financial strategy, including its budget for 2014/15 and forecasts through to 2018/19.

Section 4 contains the statement of responsibilities, and sets out the roles and responsibilities of the council and of the Assistant Director Finance in preparing the statement of accounts. The independent auditors' report is included at section 5. This report draws readers' attention to any important information they might need to take into account when reading the statements.

1. INTRODUCTION TO THE STATEMENTS

Section 6 contains the financial statements prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). These comprise four main statements, and a series of notes. The four main statements are:

The Comprehensive Income and Expenditure Statement – this summarises all expenditure, income, gains and losses for the council during the year. It is important to remember that this statement is prepared entirely in accordance with accounting rules, which differ in several ways from the legal rules used to calculate budgets and available balances.

The Balance Sheet – this shows all of the council's assets, liabilities and reserves at the end of the financial year. Assets are either things that the council owns and can use or sell in the future, or money that it is owed by other people. Liabilities are money owed by the council to other people. Reserves fall into two categories: usable reserves are funds that the council has available to spend in the future, while unusable reserves are amounts that have come about purely from accounting adjustments and are not therefore available to spend.

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

The Cash Flow Statement – this summarises all of the council's payments and receipts over the course of the year. The fundamental difference between this statement and the Comprehensive Income and Expenditure Statement is that 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 – Financial Performance for 2013/14 – this note provides more information on the council's financial performance for 2013/14. Crucially, it provides figures in the format that councillors and senior officers use when making decisions about the running of the council (none of the four main statements described above are ever used in decision-making because of the numerous discrepancies between them and the legal accounts).

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

Note 3 – Current Receivables and Payables – this note summarises how much money was owed to the council at the end of the year, and how much the council owed other people.

Note 4 – Provisions and Contingent Liabilities – this note provides information about things for which the council knows it will or may have to pay money to other people, but there is uncertainty about one or more elements of that payment. This may be the amount of the payment, when it has to be paid, or even whether the council will actually have to make a payment.

Note 5 – Non-Current Assets – this note provides information about the council's non-current assets, which are assets that it uses for more than one year.

Note 6 – Employee Pensions – this note provides information about employee pensions, including the net pensions liability (the difference between current pension commitments and the assets available to fund those) at the end of the year.

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

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

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

Note 10 – Reconciliation of the Financial Statements to the Statutory Accounts – as mentioned earlier, there are many differences between the financial statements and the legal accounts that the council actually uses to manage its finances. This detailed note analyses all of those differences for interested readers.

Note 11 – Accounting Policies – this note describes the policies that have been used by the council to prepare these statements, changes in those since last year, and any significant judgements about applying the policies that had to be made when preparing the statements.

Section 7 provides a set of financial statements and associated notes relating to the Housing Revenue Account. By law, the council has to account for its council housing service separately from other services, to ensure that rents only pay for housing (and likewise, that council tax does not subsidise housing).

Section 8 contains statements for the Collection Fund. These show how much council tax was raised in Wolverhampton during the year, and how it was allocated between the council, fire and police authorities.

Section 9 provides the financial statements of West Midlands Pension Fund. These are completely separate from the council's accounts, but because the council is the administering body it has to include the Pension Fund's accounts alongside its own. They follow a similar format to the council's accounts, with two main statements followed by a series of notes.

Section 10 is the council's Annual Governance Statement. This provides important information about how the council is run, and in particular how it manages key risks. Finally, there is a glossary at Section 11, which describes many of the technical accounting terms and abbreviations used in these statements.

Note on Group Accounts

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

Outturn 2013/14

General Fund

2013/14 continued to be another challenging year for the council's General Fund, with a savings target of £16.5 million included in the approved budget. Furthermore, the use of General Fund reserves totalling £3.7 million was planned for 2013/14. Taking this into account, the council's outturn position for the year was a £2.3 million budget deficit**.** £4.6 million was attributable to the cost of redundancy. The following table analyses the outturn for 2013/14, compared to budget, by directorate. It should be noted that the figures used in this table include certain accounting charges, such as impairment of non-current assets, which are reversed under statutory provisions and are therefore not budgeted for. These can give rise to significant variations for this reason alone.

Service	2013/14 Net Budget £m	2013/14 Net Outturn £m	Total Variation Over/(Under) £m
Community	157.6	159.5	1.9
Delivery	40.2	32.7	(7.5)
Education and Enterprise	25.8	33.4	7.6
Office of the Chief Executive	2.0	1.8	(0.2)
Corporate Budgets	30.0	31.1	1.1
Net Budget Requirement	**255.6**	**258.5**	**2.9**
Funding:			
Government Grant (General)	(178.4)	(179.0)	(0.6)
Council Tax	(73.3)	(73.3)	-
Collection Fund Surplus	(0.2)	(0.2)	-
Budgeted Use of Reserves	(3.7)	(3.7)	-
2013/14 Deficit - Use of Reserves	-	(2.3)	(2.3)
Total Funding	**(255.6)**	**(258.5)**	**(2.9)**
Balance	**-**	**-**	**-**

2. FINANCIAL PERFORMANCE 2013/14

Housing Revenue Account (HRA)

The outturn position for the year was an operating surplus of £14.7 million, compared to a budgeted surplus of £11.6 million. Of this £11.6 million, £11.4 million had originally been earmarked for debt redemption. However based on the outturn the council was able to use £14.5 million on making a provision for the redemption of debt. This has the major advantage of creating additional 'headroom' under the HRA borrowing limit as set by law, which will enable the council to pay for additional investment in its houses in the future.

The operating surplus over the budgeted level of surplus was generated primarily by savings on interest payable and receivable. This was due to the council's treasury management policy of using internally-generated cash balances ahead of external borrowing wherever possible.

	Budget 2013/14 £m	Outturn 2013/14 £m	Variance Over/(Under) £m
Income	(95.8)	(95.5)	0.3
Expenditure	68.5	67.5	(1.0)
Net Cost of Services	**(27.3)**	**(28.0)**	**(0.7)**
Net Cost of Borrowing and Investments	15.7	13.3	(2.4)
Surplus for the Year	**(11.6)**	**(14.7)**	**(3.1)**
Allocation of Surplus for the Year			
Provision for Redemption of Debt	11.4	14.5	3.1
Transfer to Reserves	0.2	0.2	-
Total	**11.6**	**14.7**	**(3.1)**

Capital Programme

Capital expenditure by the council during 2013/14 totalled £160.6 million, as set out in the following table. This was £56.6 million under budget primarily due to slippage into future years and cost reductions.

Expenditure	Approved Budget £m	Outturn £m	Variation Over/(Under) £m
General Fund			
Community	7.1	4.5	(2.6)
Delivery	10.4	8.3	(2.1)
Education and Enterprise	117.7	102.5	(15.2)
Private Sector Housing	6.8	2.2	(4.6)
Total General Fund	**142.0**	**117.5**	**(24.5)**
Housing Revenue Account	75.2	43.1	(32.1)
Total Expenditure	**217.2**	**160.6**	**(56.6)**

Page 31

Items of Interest in the Accounts

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

Provisions and Contingent Liabilities

The council's total level of provisions decreased by £5.1 million (net) over the course of the year. This was almost entirely due to the use of £7.8 million of the Capitalisation Risks provision. Total provisions at 31 March 2014 stood at £25.5 million: further details are provided at Note 4A to the Financial Statements.

Capital Expenditure

The council once again successfully managed a large capital expenditure programme in 2013/14, resulting in additions to non-current assets of £93.1 million, along with other capital expenditure of £67.5 million. The main additions were on council dwellings (£43.1 million), mostly due to spend under the council's Decent Homes programme, and other land and buildings (£31.2 million), which reflects a number of major investments including Building Schools for the Future and the i54 development. There is more information on capital expenditure for the year in Note 1 to the Financial Statements, while information about non-current assets held by the council can be found in Note 5.

Net Pensions Liability

In accordance with the Code, the council has adopted the amendments to IAS 19 Employee Benefits. The 2012/13 figures have been restated, but there is no impact on the net pension liability or the Pensions Reserve.

The amended requirements relate to the new classes of components of defined benefit cost:

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

The council's net pensions liability shows the extent to which its existing pension commitments to employees and former employees exceed the assets currently available to meet those commitments. This liability decreased by £89.8 million during 2013/14, made up of a reduction of £74.0 million in liabilities, and a growth of £15.8 million in assets. The main reasons for the net movement were gains of £109.6 million resulting from changes in actuarial assumptions, net interest payable of £22.1 million, and other net expenditure of £2.3 million. Note 6 to the Financial Statements provides further information on employee pensions.

In practice, the value of the net pensions liability is not entirely meaningful, because pensions payments will generally not need to be made for many years, and the Pension Fund plans over long timescales as a result. Furthermore, the amount the council has to charge to its revenue accounts is the amount of employee contributions payable for the year, and not the costs calculated under the accounting rules. It is also important to note that the calculation of the net pensions liability relies on a number of complex judgements and assumptions, variations in which can lead to significant differences in the outcome: this is discussed in Note 11D to the Financial Statements.

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 2014, its total borrowing portfolio stood at £563.2 million, of which £399.4 million was owed to the Public Works Loan Board, £103.8 million to private sector lenders and £60.0 million to other local authorities. The council's borrowing activities are governed by the Prudential Code for Capital Finance in Local Authorities (CIPFA).

Revaluation of Property, Plant and Equipment

The council values its property, plant and equipment on a rolling five-year cycle. During 2013/14, assets with a combined value of £101.1 million (post 2013/14 depreciation) became due for revaluation. The impact of this exercise were an upwards revaluation of £18.7 million, a downwards revaluation of £15.2 million and a net impairment of £18.6 million. An additional £3.2 million of impairments arose during the course of the year and was not part of the revaluation exercise. Statutory provisions require the council to transfer an equivalent amount from its Capital Adjustment Account to its revenue accounts, meaning that there is no impact of this impairment on council tax or housing rents.

Losses on Disposal

The losses on the disposal of non-current assets in 2013/14 have increased due to the increase in conversion of schools to Academy status. As the council would no longer control or maintain the asset for the majority of its economic life the buildings are removed from the balance sheet as a disposal.

3. THE MEDIUM TERM FINANCIAL STRATEGY

The Medium Term Financial Strategy 2014/15 to 2018/19

General Fund

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

Economic Conditions

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

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

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

Social and Demographic Factors

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

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

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

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

The Medium Term Financial Strategy

Whilst the council's financial planning process is driven by the annual statutory budget cycle, its horizons extend to the next five financial years. The Medium Term Financial Strategy is a critical part of the council's planning and performance framework, and is kept under continuous review. The Medium Term Financial Strategy, as approved by Full Council in March 2014, is summarised in the table below.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Net Expenditure Budget	**584.5**	**573.5**	**579.5**	**593.2**	**593.7**
Specific Grants	(335.1)	(332.3)	(332.2)	(332.1)	(332.1)
Net Budget	**249.4**	**241.2**	**247.3**	**261.1**	**261.6**
General Funding	(237.6)	(220.0)	(214.4)	(210.6)	(202.4)
Projected Deficit	**11.8**	**21.2**	**32.9**	**50.5**	**59.2**

In order to balance the 2014/15 General Fund budget, the budgeted use of £11.8 million of general balances was approved by Full Council.

As is shown in the table above, the council forecasts that it will need to save a further £59.2 million over the next five years, in addition to £72.6 million of savings that are already planned and built into the Medium Term Financial Strategy. Further to this, the council has already identified savings in excess of £100 million over the last four financial years. The extent of the financial challenge over the medium term is the most significant the council has ever faced.

Current projections indicate that the council's general balances could be exhausted by the beginning of 2015/16. Urgent action is therefore required and the following budget strategy to identify further savings has been approved by Cabinet:

- A minimum of £25 million of additional savings for 2015/16 should be identified and reported to Cabinet in June 2014, in order to demonstrate that a balanced budget can be achieved and that general reserves can be partially replenished.
- That additional savings for 2014/15 should be identified and reported to Cabinet in June 2014 and then Council in July 2014 in order to revise the 2014/15 budget and reduce the call on general reserves.
- That a further £35 million of additional savings should be identified, taking the total additional savings to be identified to £60 million, in order to address the projected budget deficit over the medium term to 2018/19.

Significant work has taken place during the early part of 2014/15 which has resulted in the identification of savings proposals amounting to £18.1 million for 2015/16; reported to Cabinet in June 2014. Of those savings, £1.7 million can be achieved during 2014/15. Further savings proposals, as yet unquantified will go some way towards achieving the remaining £7 million for 2015/16. The table below identifies the impact of identified savings proposals on the Medium Term Financial Strategy.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Projected Remaining Budget Deficit – as reported February 2014	**11.8**	**21.3**	**32.9**	**50.5**	**59.2**
Savings Proposals Identified/Accelerated Savings	(1.7)	(16.4)	0.7	0.4	0.1
Projected Remaining Budget Deficit – as reported June 2014	**10.1**	**3.2**	**15.5**	**33.5**	**42.3**

Housing Revenue Account

A number of significant developments are planned for the Housing Revenue Account (HRA) in 2014/15. The council is planning to utilise the new freedoms and resources resulting from the introduction of self-financing in April 2012 to develop new affordable housing in the city.

An updated HRA business plan was approved in January 2014, which reflected the council's plans to invest £1.8 billion in its houses over the next 30 years, and demonstrated that under current forecasts there is sufficient funding for this. In terms of 2014/15, the plan included an average rent increase of 6.23%, and a freeze in management and maintenance allowances for managing agents. The table below shows the approved budget for 2014/15, along with forecasts for the next two years.

	Budget 2014/15 £m	Forecast 2015/16 £m	Forecast 2016/17 £m
Income			
Gross Rents - Dwellings	(91.5)	(93.8)	(96.3)
Gross Rents - Non Dwellings	(1.6)	(1.7)	(1.7)
Charges to Tenants for Services and Facilities	(5.2)	(5.3)	(5.4)
Total Income	**(98.3)**	**(100.8)**	**(103.4)**
Expenditure			
Management and Maintenance	47.6	47.8	48.0
Depreciation of Long Term Assets	33.8	36.1	38.8
Net Financing Costs	16.9	16.9	16.6
Total Expenditure	**98.3**	**100.8**	**103.4**
Balance	**-**	**-**	**-**

Capital Programme

Capital expenditure is investment in the council's property, plant, equipment and other long-life assets. It can also include investment in assets owned by other people, in certain circumstances. Capital funding has declined significantly at a national level, but nonetheless the council has been able to put together a capital programme that includes major projects such as Building Schools for the Future, Decent Homes, Physical Regeneration and the i54 business park. The table below shows the council's capital programme for the next five years, as approved by the council in March 2014.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	TOTAL £m
Forecast Expenditure	**168.7**	**67.4**	**51.5**	**43.1**	**-**	**330.7**

The following table lists some of the main projects in 2014/15:

Project	Forecast Expenditure 2014/15 £m
Delivery	
Facilities Management	10.7
ICT Developments	7.8
Fleet Services	3.4
Energy Efficiency Measures	2.7
FutureWorks	0.9
Markets Investment	0.3
	25.8
Community	
Sports Investment Strategy	2.5
Community Hubs	2.1
Parks Refurbishment Programme	0.8
Review of Children's Homes	0.8
Early Education for Two Year Olds	0.5
Social Inclusion	0.4
Electronic Social Care Records	0.3

Project	Forecast Expenditure 2014/15 £m
	7.4
Education and Enterprise	
Schools Modernisation, Suitability and Condition	18.7
Physical Regeneration	16.0
Building Schools for the Future	10.8
i54 Access & Infrastructure	9.3
Highways - Network Development Programme	6.0
Remediation of Contaminated Land	3.2
Highways - West Midlands Major Schemes	2.8
Highways - Structural Maintenance	2.8
Wolverhampton City Centre Interchange	1.6
Targeted Disposals Programme	1.3
Corporate Asset Management Initiatives	0.7
Property Management - Other Projects	0.4
Other Projects	0.1
	73.7
Housing Private Sector	**3.9**
Housing Revenue Account	
Decent Homes Stock Condition	39.3
Major Stock Condition Improvements	8.8
Other Stock Condition Improvements	7.0
Other Improvements to the Public Realm	1.3
Adaptations for People with Disabilities	1.1
Service Enhancements and Miscellaneous	0.4
	57.9
Grand Total	**168.7**

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

Source of Funding	Forecast Expenditure 2014/15 £m
Borrowing	102.7
Grants and Contributions	40.3
Reserve Funds	22.6
Capital Receipts	3.1
Total	**168.7**

4. STATEMENT OF RESPONSIBILITIES

The Council's Responsibilities

The council is required to:

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

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

(iii) Approve the Statement of Accounts.

The Assistant Director Finance's Responsibilities

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

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

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

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

(iii) Complied with the Code.

The Assistant Director Finance has also:

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

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

Certification of the Assistant Director Finance

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the council as at 31 March 2014 and its income and expenditure for the year ended the same date.

Mark Taylor

Assistant Director Finance

30 September 2014

5. INDEPENDENT AUDITORS’ REPORT TO THE COUNCILLORS OF WOLVERHAMPTON CITY COUNCIL

Independent auditors’ report to the Councillors of Wolverhampton City Council

To follow.

Comprehensive Income and Expenditure Statement (Council only)

2012/13 Gross Expenditure £m	2012/13 Gross Income £m	2012/13 Net Expenditure £m		Note	2013/14 Gross Expenditure £m	2013/14 Gross Income £m	2013/14 Net Expenditure £m
126.5	(57.0)	69.5	Adult Social Care		119.2	(29.5)	89.7
21.6	(4.0)	17.6	Central Services to the Public		26.4	(6.4)	20.0
401.2	(227.7)	173.5	Education and Children's Services		304.7	(218.7)	86.0
4.7	-	4.7	Corporate and Democratic Core		4.4	-	4.4
30.8	(11.6)	19.2	Cultural and Related Services		42.0	(10.8)	31.2
27.1	(8.2)	18.9	Environment and Regulatory Services		29.9	(9.4)	20.5
9.6	(3.0)	6.6	Planning Services		11.5	(3.0)	8.5
31.7	(4.7)	27.0	Highways and Transport Services		33.0	(4.5)	28.5
83.1	(94.0)	(10.9)	Housing Services		83.6	(99.9)	(16.3)
166.0	(167.6)	(1.6)	Non-Distributed Costs		144.3	(143.2)	1.1
902.3	**(577.8)**	**324.5**	**Total Continuing Operations Excluding Acquired Operations**		**799.0**	**(525.4)**	**273.6**
			Services Acquired				
-	-	-	Public Health	2A	16.4	(19.0)	(2.6)
902.3	**(577.8)**	**324.5**	**Net Cost of Services**		**815.4**	**(544.4)**	**271.0**
13.4	-	13.4	Levies		13.3	-	13.3
1.5	-	1.5	Payments to the Housing Capital Receipts Pool		1.8	-	1.8
36.9	(9.3)	27.6	Losses/(gains) on the Disposal of Non-current Assets		74.4	(12.5)	61.9

Page 44

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

2012/13					2013/14		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Note	Gross Expenditure £m	Gross Income £m	Net Expenditure £m
2.1	(0.8)	1.3	External Trading Organisations	2B	1.2	(1.3)	(0.1)
25.4	-	25.4	Interest Payable		31.3	-	31.3
20.8	-	20.8	Net Interest Expense	6	22.1	-	22.1
-	(0.4)	(0.4)	Interest Receivable		-	(0.4)	(0.4)
-	-	-	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		(0.2)	-	(0.2)
-	(0.6)	(0.6)	Other Investment Income		-	(4.1)	(4.1)
(0.1)	(93.7)	(93.8)	Council Tax		-	(73.2)	(73.2)
-	(134.2)	(134.2)	National Non-domestic Rates		-	(35.1)	(35.1)
-	(7.8)	(7.8)	Unringfenced Revenue Grants Receivable		-	(143.5)	(143.5)
-	(79.5)	(79.5)	Capital Grants Receivable		-	(47.4)	(47.4)
1,002.3	**(904.1)**	**98.2**	**Deficit on the Provision of Services**		**959.3**	**(861.9)**	**97.4**
35.1	-	35.1	Deficit or (surplus) on Revaluation of Non-current Assets		(6.8)	-	(6.8)
94.0	-	94.0	Re-measurement of the net defined benefit liability	6	-	(109.6)	(109.6)
129.1	***-***	***129.1***	**Other Comprehensive Income and Expenditure**		***(6.8)***	***(109.6)***	***(116.4)***
1,131.4	**(904.1)**	**227.3**	**Total Comprehensive Income and Expenditure**		**952.5**	**(971.5)**	**(19.0)**

Comprehensive Income and Expenditure Statement (Group)

2012/13 Gross Expenditure £m	2012/13 Gross Income £m	2012/13 Net Expenditure £m		Note	2013/14 Gross Expenditure £m	2013/14 Gross Income £m	2013/14 Net Expenditure £m
126.5	(57.0)	69.5	Adult Social Care		119.2	(29.5)	89.7
21.6	(4.0)	17.6	Central Services to the Public		26.4	(6.4)	20.0
401.2	(227.7)	173.5	Education and Children's Services		304.7	(218.7)	86.0
4.7	-	4.7	Corporate and Democratic Core		4.4	-	4.4
30.8	(11.6)	19.2	Cultural and Related Services		42.0	(10.8)	31.2
27.1	(8.2)	18.9	Environment and Regulatory Services		29.9	(9.4)	20.5
9.6	(3.0)	6.6	Planning Services		11.5	(3.0)	8.5
31.7	(4.4)	27.3	Highways and Transport Services		33.0	(4.1)	28.9
81.0	(92.6)	(11.6)	Housing Services		81.5	(100.0)	(18.5)
166.2	(167.6)	(1.4)	Non-Distributed Costs		144.3	(143.2)	1.1
900.4	**(576.1)**	**324.3**	**Total Continuing Operations excluding Acquired Operations**		**796.9**	**(525.1)**	**271.8**
			Services Aquired				
-	-	-	Public Health	2A	16.4	(19.0)	(2.6)
900.4	**(576.1)**	**324.3**	**Net Cost of Services**		**813.3**	**(544.1)**	**269.2**
13.4	-	13.4	Levies		13.3	-	13.3
1.5	-	1.5	Payments to the Housing Capital Receipts Pool		1.8	-	1.8
36.9	(9.3)	27.6	Losses/(gains) on the Disposal of Non-current Assets		74.4	(12.5)	61.9

Comprehensive Income and Expenditure Statement (Group) (Continued)

2012/13 Gross Expenditure £m	2012/13 Gross Income £m	2012/13 Net Expenditure £m		Note	2013/14 Gross Expenditure £m	2013/14 Gross Income £m	2013/14 Net Expenditure £m
2.1	0.9	3.0	External Trading Organisations	2B	1.2	1.3	2.5
25.4	-	25.4	Interest Payable		31.3	-	31.3
21.7	-	21.7	Net Interest Expense	6	23.3	-	23.3
-	(0.5)	(0.5)	Interest Receivable		-	(0.4)	(0.4)
-	-	-	Income and Expenditure in Relation to Investment Properties and Changes in their Fair Value		(0.2)	-	(0.2)
-	(0.6)	(0.6)	Other Investment Income		-	(4.1)	(4.1)
(0.1)	(93.7)	(93.8)	Council Tax		-	(73.2)	(73.2)
-	(134.2)	(134.2)	National Non-domestic Rates		-	(35.1)	(35.1)
-	(7.8)	(7.8)	Unringfenced Revenue Grants Receivable		-	(143.5)	(143.5)
-	(79.5)	(79.5)	Capital Grants Receivable		-	(47.4)	(47.4)
1,001.3	**(900.8)**	**100.5**	**Deficit on the Provision of Services**		**958.4**	**(859.0)**	**99.4**
35.1	-	35.1	Deficit or (surplus) on Revaluation of Non-current Assets		(6.8)	-	(6.8)
101.9	-	101.9	Re-measurement of the net defined benefit liability	6	-	(126.1)	(126.1)
137.0	**-**	**137.0**	**Other Comprehensive Income and Expenditure**		**(6.8)**	**(126.1)**	**(132.9)**
1,138.3	**(900.8)**	**237.5**	**Total Comprehensive Income and Expenditure**		**951.6**	**(985.1)**	**(33.5)**

Balance Sheets

31 March 2013 Council £m	31 March 2013 *Group £m*		Note	31 March 2014 Council £m	31 March 2014 *Group £m*
1,533.6	*1,533.6*	Property, Plant and Equipment	5	1,469.3	*1,469.3*
14.3	*14.3*	Investment Property	5	16.3	*16.3*
1.7	*1.7*	Intangible Assets	5	4.5	*4.5*
11.5	*11.5*	Heritage Assets	5	11.5	*11.5*
18.6	*18.6*	Non-current Investments		20.3	*20.3*
1.5	*1.5*	Non-current Receivables		1.4	*1.4*
1,581.2	***1,581.2***	**Total Non-current Assets**		**1,523.3**	***1,523.3***
4.5	*4.5*	Current Investments		12.5	*12.5*
0.6	*0.6*	Inventories		0.6	*0.6*
69.6	*69.0*	Current Receivables	3A	76.2	*75.0*
3.5	*12.1*	Cash and Cash Equivalents		4.1	*15.2*
78.2	***86.2***	**Total Current Assets**		**93.4**	***103.3***
(43.8)	*(43.8)*	Current Borrowing		(50.3)	*(50.3)*
(76.6)	*(79.1)*	Current Payables	3B	(71.2)	*(74.8)*
(30.6)	*(30.6)*	Current Provisions	4A	(25.5)	*(25.5)*
(151.0)	***(153.5)***	**Total Current Liabilities**		**(147.0)**	***(150.6)***
(492.4)	*(492.4)*	Non-current Borrowing		(530.7)	*(530.7)*
(551.7)	*(580.0)*	Net Pension Liability	6	(461.9)	*(476.4)*
(9.9)	*(9.9)*	Capital Grants Received in Advance		(6.6)	*(6.6)*
(86.0)	*(86.0)*	Other Non-current Liabilities		(83.2)	*(83.2)*
(1,140.0)	***(1,168.3)***	**Total Non-current Liabilities**		**(1,082.4)**	***(1,096.9)***
368.4	***345.6***	**Net Assets**		**387.3**	***379.1***

Page 48

Balance Sheets (Continued)

31 March 2013 Council £m	31 March 2013 *Group £m*		Note	31 March 2014 Council £m	31 March 2014 *Group £m*
(15.9)	*(15.9)*	General Fund Balance	10B, 10C	(27.0)	*(27.0)*
(61.1)	*(61.1)*	General Fund Earmarked Reserves	10B, 10C	(43.6)	*(43.6)*
(5.0)	*(5.0)*	Housing Revenue Account Balance	10B, 10C	(5.0)	*(5.0)*
(9.7)	*(9.7)*	Major Repairs Reserve	10B, 10C	(13.2)	*(13.2)*
(5.5)	*(5.5)*	Capital Receipts Reserve	10B, 10C	(9.6)	*(9.6)*
(31.6)	*(31.6)*	Capital Grants Unapplied Account	10B, 10C	(34.1)	*(34.1)*
-	*22.8*	Reserves of Subsidiary	10B, 10C	-	*8.2*
(128.8)	***(106.0)***	**Total Usable Reserves**		**(132.5)**	***(124.3)***
6.9	*6.9*	Short-term Accumulating Compensated Absences Account	10B, 10C	5.9	*5.9*
(12.1)	*(12.1)*	Available-for-sale Financial Instruments Reserve	10B, 10C	(12.1)	*(12.1)*
(575.4)	*(575.4)*	Capital Adjustment Account	10B, 10C	(537.3)	*(537.3)*
0.5	*0.5*	Collection Fund Adjustment Account	10B, 10C	1.2	*1.2*
3.2	*3.2*	Financial Instruments Adjustment Account	10B, 10C	3.5	*3.5*
551.7	*551.7*	Pensions Reserve	10B, 10C	461.9	*461.9*
(214.4)	*(214.4)*	Revaluation Reserve	10B, 10C	(177.9)	*(177.9)*
(239.6)	***(239.6)***	**Total Unusable Reserves**		**(254.8)**	***(254.8)***
(368.4)	***(345.6)***	**Total Reserves**		**(387.3)**	***(379.1)***

The notes on pages 31 to 119 form part of the financial statements.

Movement in Reserves Statement – 2013/14

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

	General Fund Balance £m	General Fund Earmarked Reserves £m	HRA Balance £m	Major Repairs Reserve £m	Usable Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Unusable Reserves £m	TOTAL (Council) £m	*Reserves of Subsidiary £m*	*TOTAL (Group) £m*
Balance Brought Forward	**(15.9)**	**(61.1)**	**(5.0)**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**	**(239.6)**	**(368.4)**	***22.8***	***(345.6)***
Deficit on Provision of Services	112.8	-	(15.4)	-	-	-	**97.4**	-	**97.4**	*1.9*	***99.3***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	(116.4)	**(116.4)**	*(16.5)*	***(132.9)***
Total Comprehensive Income and Expenditure	**112.8**	**-**	**(15.4)**	**-**	**-**	**-**	**97.4**	**(116.4)**	**(19.0)**	***(14.6)***	***(33.6)***
Adjustments between Accounting Basis & Funding Basis under Regulations	(106.6)	-	15.6	(3.5)	(4.1)	(2.5)	**(101.1)**	101.1	**-**	*-*	***-***
Net Decrease/(Increase) before Transfers & Other Movements	**6.2**	**-**	**0.2**	**(3.5)**	**(4.1)**	**(2.5)**	**(3.7)**	**(15.3)**	**(19.0)**	***(14.6)***	***(33.6)***
Transfers to/from earmarked Reserves	(17.3)	17.5	(0.2)	-	-	-	**-**	-	**-**	*-*	***-***
(Increase)/decrease for the Year	**(11.1)**	**17.5**	**0.0**	**(3.5)**	**(4.1)**	**(2.5)**	**(3.7)**	**(15.3)**	**(19.0)**	***(14.6)***	***(33.6)***
Balance Carried Forward	**(27.0)**	**(43.6)**	**(5.0)**	**(13.2)**	**(9.6)**	**(34.1)**	**(132.5)**	**(254.9)**	**(387.4)**	***8.2***	***(379.2)***

Movement in Reserves Statement – 2012/13

	General Fund Balance £m	General Fund Earmarked Reserves £m	HRA Balance £m	Major Repairs Reserve £m	Usable Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m	Unusable Reserves £m	TOTAL (Council) £m	*Reserves of Subsidiary £m*	*TOTAL (Group) £m*
Balance Brought Forward	**(19.5)**	**(83.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**	**(438.5)**	**(595.7)**	***12.6***	***(583.1)***
Deficit on Provision of Services	107.5	-	(9.3)	-	-	-	**98.2**	-	**98.2**	*2.3*	***100.5***
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	**-**	129.1	**129.1**	*7.9*	***137.0***
Total Comprehensive Income and Expenditure	**107.5**	**-**	**(9.3)**	**-**	**-**	**-**	**98.2**	**129.1**	**227.3**	***10.2***	***237.5***
Adjustments between Accounting Basis & Funding Basis under Regulations	(81.6)	-	15.0	(4.5)	(3.2)	4.5	**(69.8)**	69.8	**-**	-	***-***
Net Increase/Decrease before Transfers & Other Movements	**25.9**	**-**	**5.7**	**(4.5)**	**(3.2)**	**4.5**	**28.4**	**198.9**	**227.3**	***10.2***	***237.5***
Transfers from/to other Reserves	(22.3)	22.5	(0.2)	-	-	-	**-**	-	**-**	-	***-***
Decrease/(Increase) for the Year	**3.6**	**22.5**	**5.5**	**(4.5)**	**(3.2)**	**4.5**	**28.4**	**198.9**	**227.3**	***10.2***	***237.5***
Balance Carried Forward	**(15.9)**	**(61.1)**	**(5.0)**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**	**(239.6)**	**(368.4)**	***22.8***	***(345.6)***

Cash Flow Statement

2012/13 Council £m	2012/13 *Group £m*		2013/14 Council £m	2013/14 *Group £m*
98.2	*100.5*	Net deficit on the provision of services	97.4	*99.4*
(148.3)	*(146.6)*	Adjust for non-cash movements	(162.0)	*(166.4)*
9.3	*9.3*	Adjust for items that are investing and financing activities	12.5	*12.5*
(40.8)	***(36.8)***	**Net cash flows from operating activities**	**(52.1)**	***(54.5)***
		Comprising:		
25.4	*25.2*	Interest paid	31.3	*30.2*
(0.4)	*(0.4)*	Interest received	(0.4)	*(0.4)*
(0.6)	*(0.6)*	Dividends received	(4.1)	*(4.1)*
(65.2)	*(61.0)*	Other operating activities	(78.9)	*(80.2)*
(40.8)	***(36.8)***	**Net cash flows from operating activities**	**(52.1)**	***(54.5)***
		Investing activities		
147.2	*147.2*	Purchase of property, plant and equipment, investment property and intangible assets	93.1	*93.1*
571.2	*571.2*	Purchase of short-term and long-term investments	584.6	*584.6*
(9.3)	*(9.3)*	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12.5)	*(12.5)*
(576.2)	*(576.2)*	Other receipts from investing activities	(571.7)	*(571.7)*
132.9	***132.9***	**Net cash flows from investing activities**	**93.5**	***93.5***

Page 52

Cash Flow Statement (continued)

2012/13 Council £m	2012/13 Group £m		2013/14 Council £m	2013/14 Group £m
		Financing activities		
(171.5)	*(171.5)*	Cash receipts of short- and long-term borrowing	(164.5)	*(164.5)*
1.0	*1.0*	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.7	*1.7*
85.4	*85.4*	Repayments of short-and long-term borrowing	120.8	*120.8*
(85.1)	***(85.1)***	**Net cash flows from total financing activities**	**(42.0)**	***(42.0)***
7.0	***11.0***	**Net (increase) or decrease in cash and cash equivalents**	**(0.6)**	***(3.0)***
		Cash and cash equivalents at the start of the year:		
0.2	*0.2*	- Cash held by the council	0.2	*0.2*
2.4	*13.9*	- Bank current accounts	3.3	*11.9*
2.6	***14.1***		**3.5**	***12.1***
		Cash and cash equivalents at the end of the year:		
0.2	*0.2*	- Cash held by the council	0.2	*0.2*
3.3	*11.9*	- Bank current accounts	3.9	*15.0*
3.5	***12.1***		**4.1**	***15.2***

Note 1 – Financial Performance for 2013/14

The purpose of this note is to show how the council's financial performance for 2013/14 was reported to its management (senior officers and councillors).

General Fund

The following table compares the council's General Fund outturn for 2013/14 to its budget. It analyses spend by directorate, which is the format used for internal reporting to management. This table is calculated in line with the legal requirements. As the table shows, there was a £2.3 million deficit on the council's net General Fund expenditure for the year. £4.6 million was attributable to the cost of redundancy. After taking into account net transfers to/from earmarked reserves, there was a reduction in the General Fund Balance of £6 million, with remaining funds totalling £27 million at the end of the financial year.

Service	2013/14 Net Budget £m	2013/14 Net Outturn £m	Total Variation Over/(Under) £m
Community	157.6	159.5	1.9
Delivery	40.2	32.7	(7.5)
Education and Enterprise	25.8	33.4	7.6
Office of the Chief Executive	2.0	1.8	(0.2)
Corporate Budgets	30.0	31.1	1.1
Net Budget Requirement	**255.6**	**258.5**	**2.9**
Funding:			
Government Grant (General)	(178.4)	(179.0)	(0.6)
Council Tax	(73.3)	(73.3)	-
Collection Fund Surplus	(0.2)	(0.2)	-
Budgeted Use of Reserves	(3.7)	(3.7)	-
2013/14 Deficit - Use of Reserves	-	(2.3)	(2.3)
Total Funding	**(255.6)**	**(258.5)**	**(2.9)**
Budget (Surplus)/Deficit	**-**	**-**	**-**

Housing Revenue Account (HRA)

The outturn position for the year was an operating surplus of £14.7 million, compared to a budgeted surplus of £11.6 million. The following table shows the outturn position on the HRA during the year. The table excludes any transactions which are required by the Code but are not a charge or credit to the HRA under law.

	2013/14 Approved Budget £m	2013/14 Outturn £m	Variation £m
Income			
Gross Rents - Dwellings	(88.9)	(88.9)	-
Gross Rents - Non Dwellings	(1.6)	(1.6)	-
Charges to Tenants for Services and Facilities	(5.0)	(5.0)	-
Total Income	**(95.5)**	**(95.5)**	**-**
Expenditure			
Repairs and Maintenance	26.2	25.9	(0.3)
Supervision and Management	18.4	18.4	-
Rents, Rates and Taxes	0.2	0.4	0.2
Increase in Provision for Bad Debts	1.5	0.9	(0.6)
Depreciation of Long Term Assets	21.9	21.9	-
Total Expenditure	**68.2**	**67.5**	**(0.7)**
Net Cost of HRA Services	**(27.3)**	**(28.0)**	**(0.7)**
Interest Payable	15.8	13.4	(2.4)
Interest and Investment Income	-	(0.1)	(0.1)
Adjustment for Premiums & Discounts	-	-	-
Surplus before Transfers to/from Reserves and Provision for	**(11.6)**	**(14.7)**	**(3.1)**

	2013/14 Approved Budget £m	2013/14 Outturn £m	Variation £m
Redemption of Debt			
Allocation of Surplus			
Provision for Redemption of Debt	11.4	14.5	3.1
Transfer to/(from) Reserves	0.2	0.2	-
Balance for the Year	**-**	**-**	**-**

Capital Programme

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

Expenditure	Approved Budget £m	2013/14 Outturn £m	Variation Over/(Under) £m
General Fund			
Community	7.1	4.5	(2.6)
Delivery	10.4	8.3	(2.1)
Education and Enterprise	117.7	102.5	(15.2)
Private Sector Housing	6.8	2.2	(4.6)
	142.0	**117.5**	**(24.5)**
Housing Revenue Account	75.2	43.1	(32.1)
Total Expenditure	**217.2**	**160.6**	**(56.6)**

Funding	Approved Funding £m	Outturn Funding £m	Variation Over/(Under) £m
General Fund			
External Funding			
Grants & Contributions	91.6	87.7	(3.9)
	91.6	**87.7**	**(3.9)**
	64.51%	74.64%	
Council Funding			
Capital Receipts	4.1	4.8	0.7
Prudential Borrowing	46.4	25.1	(21.3)
Revenue Contributions	(0.1)	(0.1)	-
	50.4	**29.8**	**(20.6)**
	35.49%	25.36%	
Total General Fund Funding	**142.0**	**117.5**	**(24.5)**
Housing Revenue Account			
External Funding			
Grants & Contributions	12.0	12.0	-
	12.0	**12.0**	**-**
	15.90%	27.85%	
Council Funding			
Capital Receipts	2.5	1.8	(0.7)
Prudential Borrowing	35.0	10.9	(24.1)

Page 57

Funding	Approved Funding £m	Outturn Funding £m	Variation Over/(Under) £m
Major Repairs Reserve	25.8	18.4	(7.4)
	63.3	**31.1**	**(32.2)**
	84.10%	72.15%	
Total Housing Revenue Account Funding	**75.2**	**43.1**	**(32.1)**

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

	Balance at 31 March 2013 £m	Approved Transfer to General Fund Balance 23 October 2013 £m	Other Net Movements 2013/14 £m	Balance at 31 March 2014 £m
Earmarked Reserves				
Community	2.6	(0.4)	1.6	3.8
Education and Enterprise (Non-Schools)	7.5	(1.1)	(1.7)	4.7
Office of the Chief Executive and Delivery	4.9	(0.1)	0.2	5.0
Corporate	28.5	(5.5)	(8.9)	14.1
Total Earmarked Reserves	**43.5**	**(7.1)**	**(8.8)**	**27.6**
Other Reserves				
Schools' Balances	17.6	-	(1.6)	16.0
General Fund Balance	15.9	7.1	*4.0	27.0
Housing Revenue Account Balance	5.0	-	-	5.0
Total Usable Revenue Reserves	**82.0**	**-**	**(6.4)**	**75.6**

*This includes the transfer of £10 million generated from an adjustment to "Factor E" which had a positive impact on the General Fund Balance as approved by Cabinet on 23 October 2013, in addition to the drawdown of £6 million to meet General Fund expenditure in 2013/14.

Note 2 – Income and Expenditure

2A - Acquired Operations

With effect from 1 April 2013, responsibility for Public Health transferred from the former Primary Care Trust (PCT) to the council. The council received a ring-fenced grant of £18.8 million for 2013/14, as well as contributions from other agencies of £237,000, and its expenditure on Public Health activities in the year amounted to £16.4 million. The balance of £2.6 million has been identified for Public Health activities in 2014/15, and was transferred to earmarked reserves at the year end.

2B – Trading Operations

2012/13			2013/14	
(Turnover) £m	Deficit/ (Surplus) £m	Operation	Turnover £m	Deficit/ (Surplus) £m
(2.3)	2.3	Markets	(2.3)	(0.1)
(4.0)	(0.3)	Cleaning of Buildings	(3.8)	0.3
(3.2)	-	Ground Maintenance	(4.6)	-
(3.0)	-	Street Cleaning	(2.9)	(0.3)
(7.4)	-	Schools and Welfare Catering	(7.5)	-
(0.3)	-	Other Catering	(0.3)	-
(9.4)	(0.6)	Transport Services	(5.7)	-
(0.9)	-	Former DSO Depots	(0.9)	-
(30.5)	**1.4**	**Total**	**(28.0)**	**(0.1)**

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 (e.g. Street Cleaning), 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.

The deficit/(surplus) shown in the table above are generated from the council's external trading operations and are therefore not apportioned at year end.

2C – Pooled Budgets

The council takes part in pooled budget schemes with Wolverhampton Clinical Commissioning Group (CCG). In 2012/13, these arrangements were with the former Wolverhampton Primary Care Trust (PCT). The table below provides a summary of these schemes, with the administering body's name in brackets.

2012/13 Council Contribution £m	2012/13 PCT Contribution £m	2012/13 Total Expenditure £m	Scheme	2013/14 Council Contribution £m	2013/14 CGG Contribution £m	2013/14 Total Expenditure £m
2.3	1.5	3.8	Child Placements with External Agencies (Council) - An integrated service to provide placements for children with social care, education and health needs	2.5	1.7	4.2
25.4	1.0	26.4	Learning Disability Services (Council) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	-	-	-
4.6	16.4	21.0	Mental Health Service (Council and CGG) - Covers the provision and purchase of residential and nursing, domiciliary and day care placements	-	-	-

2D – Councillors' Allowances

The council paid £991,000 in councillors' allowances during 2013/14 (2012/13: £989,000).

2E – Senior Officers' Remuneration

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

Post Title / Name		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities [1] £	TOTAL REMUNERATION £
Senior Officers with a salary of £150,000 or more per year								
Chief Executive, Simon Warren [2]	**2013/14**	**153,833**	**-**	**-**	**-**	**30,217**	**4,370**	**188,420**
	2012/13	140,958	-	1,989	-	30,165	17,505	190,617
Senior Officers with a salary of less than £150,000 per year								
Strategic Director Delivery [2&3]	**2013/14**	**130,000**	**-**	**-**	**-**	**24,830**	**-**	**154,830**
	2012/13	162,063	-	497	-	6,203	-	168,763
Strategic Director Delivery [4]	**2013/14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2012/13	9,420	-	-	-	-	-	9,420
Strategic Director Education and Enterprise [2&5]	**2013/14**	**112,527**	**-**	**-**	**-**	**21,493**	**-**	**134,020**
Strategic Director Education and Enterprise, Charles Green [5]	2012/13	187,223	-	-	-	-	-	187,223
Strategic Director Community [2]	**2013/14**	**131,818**	**-**	**-**	**-**	**25,177**	**-**	**156,995**
	2012/13	130,818	-	1,989	-	24,968	-	157,775
Director of Public Health [6]	**2013/14**	**87,747**	**-**	**963**	**-**	**12,285**	**-**	**100,995**
	2012/13	-	-	-	-	-	-	-
Chief Human Resources Officer [7]	**2013/14**	**66,225**	**-**	**-**	**-**	**12,649**	**-**	**78,874**
	2012/13	55,703	-	-	-	10,472	-	66,175
Chief Legal Officer [8]	**2013/14**	**131,467**	**-**	**-**	**-**	**-**	**-**	**131,467**
	2012/13	-	-	-	-	-	-	-

Post Title / Name		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities [1] £	TOTAL REMUNERATION £
Assistant Chief Executive [9]	**2013/14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2012/13	73,012	-	722	48,984	12,628	-	135,346
Assistant Director Governance [8]	**2013/14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2012/13	63,503	-	599	139,200	10,974	5,307	219,583
Assistant Director Business Change [10]	**2013/14**	**89,535**	**-**	**963**	**-**	**17,101**	**-**	**107,599**
	2012/13	29,854	-	321	-	6,174	2,985	39,334
Assistant Director Regeneration	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Central Services	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Finance (Section 151 Officer) [11]	**2013/14**	**85,287**	**-**	**963**	**-**	**16,290**	**-**	**102,540**
	2012/13	71,427	-	963	-	13,428	-	85,818
Assistant Director Corporate Services (Section 151 Officer) [11]	**2013/14**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2012/13	59,708	-	642	-	12,347	5,971	78,668
Assistant Director Safeguarding, Business Support and Community Services [12]	**2013/14**	**82,317**	**-**	**979**	**-**	**15,723**	**-**	**99,019**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Health, Wellbeing and Disabilities	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Older People and Personlisation	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Partnership, Economy and Culture	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284

Post Title / Name		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities [1] £	TOTAL REMUNERATION £
Assistant Director Schools, Skills and Learning - Interim	**2013/14**	**96,052**	**-**	**-**	**-**	**-**	**-**	**96,052**
Assistant Director Schools, Skills and Learning [13]	**2013/14**	**26,502**	**-**	**254**	**63,415**	**4,363**	**-**	**94,534**
	2012/13	85,287	-	963	-	16,034	-	102,284
Assistant Director Children, Young People and Families	**2013/14**	**86,712**	**-**	**963**	**-**	**16,562**	**-**	**104,237**
	2012/13	85,287	-	963	-	16,034	-	102,284

Note 1: The costs of West Midlands Pension Fund responsibilities are funded by the West Midlands Pension Fund and not by Wolverhampton City Council.

Note 2: Travel allowance for 2013/14 of £1,989 (2012/13 £1,989) has been voluntarily waived by the Chief Executive, Strategic Director Delivery, Strategic Director Education and Enterprise and Strategic Director Community with effect from 1 April 2013. This allowance has ceased permanently at the request of each of the postholders.

Note 3: The post of Strategic Director Delivery was held on an interim basis for part of 2012/13, with the post holder taking the post on a permanent basis from 1 January 2013.

Note 4: The post of Strategic Director Delivery was held on an interim basis for part of 2012/13, by a different interim to the individual referred to in note 3.

Note 5: The post of Strategic Director Education and Enterprise was held on an interim basis throughout 2012/13 until March 2013. The figures for 2012/13 include a later payment of £13,737.50 in relation to 2011/12 which has not been reported previously. The post was filled on a permanent basis on 20 May 2013 with an annual salary of £130,000.

Note 6: The post of Director of Public Health was created on 1 April 2013, in readiness for the transfer of the Public Health budget and responsibilities from Central Government.

Note 7: The post of Chief Human Resources Officer was created on 1 April 2013. The post of Head of Human Resources was deleted.

Note 8: The post of Assistant Director Governance became vacant on 14 November 2012 and had an annual salary of £85,287. This post was deleted. A new post of Chief Legal officer was created on 1 April 2013.

Note 9: The post of Assistant Chief Executive became vacant on 31 December 2012 and had an annual salary of £89,560. This post has since been deleted.

Note 10: The post of Assistant Director Business Change was created on 26 November 2012.

Note 11: The role of Section 151 Officer was held by two individuals during 2012/13. The amounts disclosed in this note relate to the full year's salary for both of these individuals, with transfer of responsibilities having taken place in November 2012.

Note 12: The post of Assistant Director Safeguarding, Business Support and Community Services became vacant on 6 August 2013 and had an annual salary of £86,712. This post was filled on 7 August 2013 on a secondment basis to 30 April 2014, at an annual salary of £78,500. Due to a restructure this post is to be deleted on 1 May 2014 with management responsibilities redistributed between the remaining posts at Assistant Director level within the Community Directorate.

Note 13: The post of Assistant Director Schools Skills and Learning became vacant on 5 July 2013 and had an annual salary of £86,712. This post has since been held on an interim basis from 22 July 2013.

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

	2013/14			
	Number of Employees			
Remuneration Band	Schools	Rest of Council	Total Number of Employees In Band	Employees receiving termination packages (included in total)
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	1	1	1
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	-	-	-
£125,000 - £129,999	-	-	-	-
£120,000 - £124,999	-	-	-	-
£115,000 - £119,999	1	-	1	-
£110,000 - £114,999	-	-	-	-
£105,000 - £109,999	-	-	-	-
£100,000 - £104,999	1	-	1	-
£95,000 - £99,999	1	-	1	-
£90,000 - £94,999	3	1	4	1
£85,000 - £89,999	6	2	8	2
£80,000 - £84,999	2	1	3	-
£75,000 - £79,999	3	4	7	4
£70,000 - £74,999	7	4	11	4
£65,000 - £69,999	23	5	28	4
£60,000 - £64,999	31	14	45	9
£55,000 - £59,999	32	28	60	5
£50,000 - £54,999	56	31	87	3
Total	**166**	**91**	**257**	**33**

Remuneration Band	2012/13 Number of Employees Schools	Rest of Council	Total Number of Employees In Band	Employees receiving termination packages (included in total)
£145,000 - £149,999	-	-	-	-
£140,000 - £144,999	-	-	-	-
£135,000 - £139,999	-	-	-	-
£130,000 - £134,999	-	-	-	-
£125,000 - £129,999	-	-	-	-
£120,000 - £124,999	-	-	-	-
£115,000 - £119,999	1	-	1	-
£110,000 - £114,999	-	-	-	-
£100,000 - £104,999	-	-	-	-
£105,000 - £109,999	-	-	-	-
£95,000 - £99,999	2	-	2	-
£90,000 - £94,999	1	-	1	-
£85,000 - £89,999	5	1	6	1
£80,000 - £84,999	2	2	4	1
£75,000 - £79,999	3	2	5	1
£70,000 - £74,999	11	5	16	5
£65,000 - £69,999	23	3	26	3
£60,000 - £64,999	30	5	35	3
£55,000 - £59,999	44	32	76	5
£50,000 - £54,999	64	43	107	4
Total	**186**	**93**	**279**	**23**

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.

2012/13 Compulsory Number	2012/13 Compulsory £m	2012/13 Voluntary Number	2012/13 Voluntary £m	2012/13 Total Number	2012/13 Total £m	Value of Individual Package	2013/14 Compulsory Number	2013/14 Compulsory £m	2013/14 Voluntary Number	2013/14 Voluntary £m	2013/14 Total Number	2013/14 Total £m
1	0.2	-	-	1	0.2	£150,001 to £200,000	-	-	-	-	-	-
-	-	-	-	-	-	£100,001 to £150,000	-	-	-	-	-	-
1	0.1	1	0.1	2	0.2	£80,001 to £100,000	-	-	2	0.2	2	0.2
-	-	2	0.1	2	0.1	£60,001 to £80,000	3	0.2	1	0.1	4	0.3
2	0.1	4	0.1	6	0.2	£40,001 to £60,000	2	0.1	9	0.5	11	0.6
10	0.2	7	0.1	17	0.3	£20,001 to £40,000	10	0.3	73	1.9	83	2.2
50	0.3	40	0.3	90	0.6	Less than £20,000	82	0.5	510	4.0	592	4.5
64	**0.9**	**54**	**0.7**	**118**	**1.6**	**Total**	**97**	**1.1**	**595**	**6.7**	**538**	**7.8**

2G – Amounts Payable to the Auditor

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

2012/13 £m		2013/14 £m
	Audit Commission – statutory inspections:	
-	- Audit inspection fee	-
(0.022)	- Rebates for arrangements relating to the abolition of the Audit Commission (*)	(0.034)
(0.022)	**Sub Total Audit Commission**	**(0.034)**
	PricewaterhouseCoopers LLP	
0.251	- External audit (council)	0.251
0.049	- External audit (West Midlands Pension Fund)	0.049
0.088	- Certification of grant claims and returns	0.049
0.147	- Additional work (**)	0.186
0.535	**Sub Total PricewaterhouseCoopers LLP**	**0.535**
0.513	**TOTAL**	**0.501**

* The rebates of £22,000 in 2012/13 and £34,000 in 2013/14 were intended to smooth any financial impact of the abolition of the Audit Commission on local authorities.

** The fees to PricewaterhouseCoopers LLP in 2012/13 for additional work relate to £70,000 risk based work, £36,000 estates review, £32,000 FutureSpace Programme Advisory Service and £9,000 HRA delivery options review. In 2013/14 the additional work relates to £34,000 risk based work, £85,000 estates review, £62,000 FutureSpace Business Case Support, £3,000 multi tax helpline and £2,000 Decent Home certification.

2H – Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education: the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a restricted range of educational services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Over and underspends on the two elements are required to be accounted for separately. The table below shows how the council applied its DSG.

2012/13 Central Expenditure £m	2012/13 Individual Schools Budget £m	2012/13 Total £m		2013/14 Central Expenditure £m	2013/14 Individual Schools Budget £m	2013/14 Total £m
		(189.8)	DSG as issued by the Department in July 2013 (This does not include the Early Years January 2014 adjustment)			(196.7)
		22.1	Academy figure recouped			35.1
		(167.7)	**Total DSG after academy recoupment for the year**			**(161.6)**
		-	Brought forward from previous year			-
		-	Carry-forward to following year agreed in advance			-
(10.4)	**(157.3)**	**(167.7)**	**Agreed initial budgeted distribution in the year**	**(14.0)**	**(147.6)**	**(161.6)**
(10.4)	**(157.3)**	**(167.7)**	**Final budgeted distribution for the year**			
10.8		10.8	Less actual central expenditure	14.2		14.2
	157.3	157.3	Less actual ISB deployed to schools		148.2	148.2
(0.4)	-	(0.4)	Plus local authority contribution	-	-	-
-	**-**	**-**	**Overspend carried forward to following year**	**0.2**	**0.6**	**0.8**

Page 69

2I – Exceptional Items

There were no new exceptional items of expense or income in 2013/14.

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

2J – Events after the Reporting Period

There have been no significant events after the reporting period for 2013/14.

Note 3 – Current Receivables and Payables

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

3A – Current Receivables

31 March 2013 Council £m	31 March 2013 *Group £m*	Type of organisation	31 March 2014 Council £m	31 March 2014 *Group £m*
32.4	*32.4*	Central government bodies	41.4	*41.4*
37.2	*36.6*	Bodies external to general government	34.8	*33.6*
69.6	***69.0***	**Total**	**76.2**	***75.0***

3B – Current Payables

31 March 2013 Council £m	31 March 2013 *Group £m*	Type of organisation	31 March 2014 Council £m	31 March 2014 *Group £m*
(4.3)	*(5.4)*	Central government bodies	(4.3)	*(5.4)*
(0.2)	*(0.2)*	Other local authorities	(1.0)	*(1.0)*
(0.7)	*(0.7)*	NHS bodies	(0.1)	*(0.1)*
(71.4)	*(72.8)*	Bodies external to general government	(65.8)	*(68.3)*
(76.6)	***(79.1)***	**Total**	**(71.2)**	***(74.8)***

Note 4 – Provisions and Contingent Liabilities

4A – Provisions

Balance at 31 March 2013 £m	Provision Name	Provision Details	Amounts Used in 2013/14 £m	Provisions Made in 2013/14 £m	Balance at 31 March 2014 £m
(26.5)	Capitalisation Risks	This provision is in respect of potential claims under equal pay legislation. The council had approval from the Government to capitalise payments it may need to make in respect of Equal Pay Back Pay claims. It is currently uncertain when payments might need to be made, and the value of any such payments.	8.2	(0.4)	(18.7)
(2.6)	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.	0.3	-	(2.3)
(0.5)	Termination Benefits	During 2012/13 and 2013/14, the council undertook a voluntary redundancy exercise. As a result of this initiative, there were a number of employees and former employees to whom termination benefits were due, but had not yet been made, at the end of the year.	0.5	(1.8)	(1.8)
(0.2)	Midlands Housing Consortium (MHC)	MHC was previously a member of the West Midlands Pension Fund. It paid a lump sum to the council to support pension payments to fund members. This provision will reduce gradually over time as pension payments are made.	-	-	(0.2)
(0.5)	Carbon Reduction Commitment	This provision is in respect of the council's liability under the national, compulsory Carbon Reduction Commitment scheme. It represents the council's estimate of the amount it will have to pay to purchase allowances for its use of carbon in 2013/14.	0.5	(0.6)	(0.6)
(0.1)	Housing Revenue Account	There are three separate provisions: for legal disrepair claims, for tenant management organisation expenditure and for rent bonds.	-	-	(0.1)

Balance at 31 March 2013 £m	Provision Name	Provision Details	Amounts Used in 2013/14 £m	Provisions Made in 2013/14 £m	Balance at 31 March 2014 £m
-	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 2014. This is the first year of this provision.	-	(1.7)	(1.7)
(0.2)	Other	These are small amounts relating to ex-members of the pension fund and refunds of aftercare payments made by residents subsequently falling within Section 117 of the Mental Health Act 1983 and from whom charges are not due.	0.1	-	(0.1)
(30.6)	**Total**		**9.6**	**(4.5)**	**(25.5)**

4B – Contingent Liabilities

At 31 March 2014, 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 2014 is £9.1 million (31 March 2013 - £10.1 million).

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

- A contingent liability exists for the costs of Equal Pay compensation. The council has established a provision for £18.7 million (31 March 2013: £26.5 million). The potential costs of any further cases not addressed by this provision cannot be reliably quantified at this stage.

- There are a number of instances where the council has acquired title to assets of land and buildings due to the use of compulsory purchase orders or an interest in land and buildings subject to blight notices. In these situations there has been no transfer of economic benefits due to difficulties in either establishing the original owner or in reaching an agreement to the level of compensation to be transferred. The existence of a recognisable liability can only be confirmed at the point that the owner comes forward to claim reimbursement or the formal acknowledgment of blight has been established. The total value of these cases as at 31 March 2014 is estimated at £629,000 (31 March 2013: £556,000).

- Under recent guidance issued by the Department for Environment Food and Rural Affairs in respect of the Environmental Information Regulations 2004, it has been suggested that local authorities do not have the power to charge fees for 'personal' local land register searches, and that they may be liable to repay fees they have received since 2005. For the council, this would equate to £200,000. If all property search fees are taken into account, the total liability is £2.1 million. However, the legal position remains unclear, meaning that the existence of a liability cannot be confirmed until the relevant legal issues are resolved.

- During 2013/14, the council undertook a voluntary redundancy exercise. There were a number of applications for voluntary redundancy that were approved prior to the balance sheet date for payment during 2014/15. A provision for £1.8 million was therefore established. However there were a number of applications for voluntary redundancy in progress which had not received sufficient approvals as at the Balance Sheet date to make it reasonably certain that a redundancy would ultimately result. It is not possible to place a reliable estimate on the number of such applications that will ultimately result in redundancy, and therefore the value of any resulting liability.

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

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

- The council was previously insured by Municipal Mutual Insurance (MMI). MMI is subject to a contingent Scheme of Arrangement, the terms of which were triggered in November 2012. As a result, there is the possibility that the council may be subject to claw back of both previous and future paid claims. The value of any such claw back is estimated to be approximately £200,000.

Note 5 – Non-Current Assets

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

	Carrying Value at 1 April 2013			2013/14										Carrying Value at 31 March 2014		
	Gross Value	Accumulated Depreciation/Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluations/ Fair Value Gains/(Losses)	Depreciation Writeback on Revaluation	Impairments	Impairments Reversed	Depreciation/ Amortisation	Other Changes - Gross Value	Other Changes - Accumulated Depreciation/ Impairment	Gross Value	Accumulated Depreciation/Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Council Dwellings	1,261.8	(574.0)	**687.8**	43.1	(7.0)	-	-	-	(0.2)	0.2	(21.9)	-	-	1,297.9	(595.9)	**702.0**
Other Land and Buildings	866.6	(216.7)	**649.9**	31.2	(75.6)	11.1	(33.4)	44.5	(24.2)	11.0	(24.1)	(9.4)	0.9	779.4	(197.5)	**581.9**
Vehicles, Plant, Furniture and Equipment	66.8	(51.9)	**14.9**	5.1	-	-	-	-	-	-	(5.6)	-	-	71.9	(57.5)	**14.4**
Infrastructure Assets	256.0	(125.7)	**130.3**	6.8	-	-	-	-	-	-	(10.3)	-	-	262.8	(136.0)	**126.8**
Community Assets	27.5	(4.9)	**22.6**	1.1	-	-	(7.8)	3.4	(5.5)	-	-	-	-	20.8	(7.0)	**13.8**
Surplus Assets	43.1	(15.0)	**28.1**	0.3	(2.1)	(0.8)	(1.5)	1.6	(3.2)	0.1	(0.9)	9.7	(0.9)	49.5	(19.1)	**30.4**
Assets Under Construction	-	-	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Investment Properties	16.9	(2.6)	**14.3**	2.3	-	-	-	-	-	-	-	(0.3)	-	18.9	(2.6)	**16.3**
Intangible Assets	2.5	(0.8)	**1.7**	3.2	-	-	-	-	-	-	(0.4)	-	-	5.7	(1.2)	**4.5**
Heritage Assets	11.5	-	**11.5**	-	-	-	-	-	-	-	-	-	-	11.5	-	**11.5**
Total	**2,552.7**	**(991.6)**	**1,561.1**	**93.1**	**(84.7)**	**10.3**	**(42.7)**	**49.5**	**(33.1)**	**11.3**	**(63.2)**	**-**	**-**	**2,518.4**	**(1,016.8)**	**1,501.6**

Page 76

	Carrying Value at 1 April 2012			2012/13										Carrying Value at 31 March 2013		
	Gross Value	Accumulated Depreciation/Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation)	Revaluations/ Fair Value Gains/(Losses)	Depreciation Writeback on Revaluation	Impairments	Impairments Reversed	Depreciation/ Amortisation	Other Changes - Gross Value	Other Changes - Accumulated Depreciation/ Impairment	Gross Value	Accumulated Depreciation/Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Council Dwellings	1,224.2	(552.1)	**672.1**	41.4	(3.8)	-	-	-	-	-	(21.9)	-	-	1,261.8	(574.0)	**687.8**
Other Land and Buildings	951.2	(212.9)	**738.3**	92.9	(42.6)	12.5	(105.1)	68.8	(67.0)	3.5	(23.6)	(29.8)	2.0	866.6	(216.7)	**649.9**
Vehicles, Plant, Furniture and Equipment	62.5	(46.0)	**16.5**	4.1	-	-	-	-	-	-	(5.9)	0.2	-	66.8	(51.9)	**14.9**
Infrastructure Assets	250.2	(115.2)	**135.0**	6.8	-	-	-	-	-	-	(10.5)	(1.0)	-	256.0	(125.7)	**130.3**
Community Assets	27.4	(4.9)	**22.5**	0.3	(0.1)	-	(0.1)	-	-	-	-	-	-	27.5	(4.9)	**22.6**
Surplus Assets	13.2	(5.2)	**8.0**	1.0	(0.7)	-	(7.3)	8.6	(11.2)	1.3	(1.1)	36.9	(7.4)	43.1	(15.0)	**28.1**
Assets Under Construction	0.9	-	**0.9**	-	-	-	-	-	-	-	-	(0.9)	-	-	-	**-**
Investment Properties	19.2	(2.9)	**16.3**	0.1	(2.4)	0.3	-	-	-	-	-	-	-	16.9	(2.6)	**14.3**
Intangible Assets	1.9	(0.5)	**1.4**	0.6		-	-	-	-	-	(0.3)	-	-	2.5	(0.8)	**1.7**
Heritage Assets	11.5	-	**11.5**	-		-	-	-	-	-	-	-	-	11.5	-	**11.5**
Total	**2,562.2**	**(939.7)**	**1,622.5**	**147.2**	**(49.6)**	**12.8**	**(112.5)**	**77.4**	**(78.2)**	**4.8**	**(63.3)**	**5.4**	**(5.4)**	**2,552.7**	**(991.6)**	**1,561.1**

Depreciation/Amortisation

Property, plant and equipment assets are depreciated on a straight-line basis over the estimated useful economic life of the asset, with the exception of council dwellings, for which the Major Repairs Allowance is used as a proxy for depreciation. Intangible assets are amortised on a straight-line basis over the estimated useful economic life of the asset. No depreciation is charged on investment properties, heritage assets or land.

Revaluation

During 2013/14 the council re-valued a number of assets. The effective date of this revaluation was 1 April 2013. These valuations were carried out by the council's in-house valuation team using the guidance and methodology set out in the following paragraphs.

Legislation and guidance

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

Basis of valuation

In accordance with the CIPFA Code of Practice on Local Authority Accounting 2013/14, infrastructure, community assets, and assets under construction are valued at depreciated historical cost. All other classes of asset are measured at fair value. For vehicles, plant, furniture and equipment fair value is determined by depreciated historical cost due to the short useful life of these assets (2-7 years depending on the asset). The fair value of council dwellings is measured using existing use value (social housing). For all other asset classes, where there is no market-based evidence of fair value the council estimates fair value using the depreciated replacement cost approach. The following table describes the measurement bases used to determine the gross carrying value of each of the council's classes of non-current assets.

Asset Class	Measurement Base
Council Dwellings	Fair value based on existing use value (social housing) (EUV-SH).
Other Land and Buildings	Fair value based on existing use value (EUV) or depreciated replacement cost (DRC) using the “instant build” approach if EUV cannot be determined.
Vehicles, Plant, Furniture and Equipment	Fair value based on depreciated historical cost due to the short useful life of the asset.
Infrastructure Assets	Depreciated historical cost.
Community Assets	Depreciated historical cost or valuation.
Surplus Assets	Fair value based on existing use value (EUV) applying the same assumptions relating to the level of usage, etc, as those of the most recent revaluation as an operational asset.
Assets Under Construction	Depreciated historical cost.
Investment Properties	Initially measured at cost (defined as the purchase price plus any directly attributable cost of preparing the asset for its intended use) and subsequently measured at fair value
Intangible Assets	Amortised Cost
Heritage Assets	Where the council has information on the cost or value of the asset, the asset is recognised at this amount.

Inspection

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 2014, the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years with an estimated total value of £47.2 million (31 March 2013: £100.9 million). The major commitments are: Building Schools for the Future (£15.3 million), i54 (£10.2 million), Interchange Block 10 development (£7.6 million) and Decent Homes (£6.0 million).

Investment Properties

During the year the council had £1.3 million of income receivable from investment properties (2012/13: £1.0 million) and spent £226,000 on managing and maintaining those properties (2012/13: £140,000). 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 repairs, maintenance or enhancements.

Impairment

During 2013/14, the council identified a number of impairments as part of the regular review of its properties. The total value of those impairments was £21.8 million. There were no impairments that were individually material during 2013/14.

Capital Financing Requirement

The council's capital financing requirement, which represents the underlying need to borrow to pay for past capital expenditure, was £768.4 million at 31 March 2014 (31 March 2013: £750.5 million).

Note 6 – Employee Pensions

Participation in Pension Schemes

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

The council participates in two post-employment schemes and provides a further local discretionary scheme:

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

- Teachers employed by the council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. During the year the council contributed £3.8 million which was a contribution rate of 14.1% (2012/13: £3.7 million; 14.1%).

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

From April 2014, pensions will be 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:

2012/13 LGPS £m	2012/13 Teachers £m		2013/14 LGPS £m	2013/14 Teachers £m
		Comprehensive Income And Expenditure Statement		
		Cost of Services:		
(22.2)	-	- Current service cost	(28.9)	-
(0.2)	-	- Past service costs	(0.1)	-
2.1	(0.1)	- Settlements and curtailments	3.5	(0.3)
(0.3)	-	- Administration Expenses	(0.4)	-
		Financing and Investment Income and Expenditure:		
(18.4)	(2.4)	- Net Interest cost	(20.0)	(2.1)
(39.0)	**(2.5)**	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**(45.9)**	**(2.4)**
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
(87.0)	(7.1)	- Re-measurements (liabilities and assets)	106.9	2.7
(126.0)	**(9.6)**	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	**61.0**	**0.3**
		Movement In Reserves Statement		
(31.1)	**(2.5)**	- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	**(45.9)**	**(2.4)**
		Actual amount charged against the General Fund Balance for pensions in the year:		
23.4		- Employer's contributions payable to scheme	24.8	
	3.7	- Retirement benefits payable to pensioners		3.8

Page 82

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:

2012/13 LGPS £m	Assets	2013/14 LGPS £m
675.0	**Opening balance at 1 April**	**747.9**
32.8	Interest Income	31.3
49.8	Re-measurement Gain/(Loss)	(7.4)
23.4	Employer contributions	24.8
7.3	Contributions by scheme participants	7.8
(38.3)	Benefits paid	(40.0)
(1.8)	Settlements	(0.3)
(0.3)	Admin expenses	(0.4)
747.9	**Closing balance at 31 March**	**763.7**

Page 83

2012/13 Funded: LGPS £m	2012/13 Unfunded: LGPS £m	2012/13 Unfunded: Teachers £m	Liabilities	2013/14 Funded: LGPS £m	2013/14 Unfunded: LGPS £m	2013/14 Unfunded: Teachers £m
(1,043.0)	**(21.4)**	**(54.0)**	**Opening balance at 1 April**	**(1,217.3)**	**(22.6)**	**(59.8)**
(22.2)	-	-	Current service cost	(28.9)	-	-
(50.2)	(1.0)	(2.4)	Interest cost	(50.4)	(0.9)	(2.1)
(7.3)	-	-	Contributions - participants	(7.8)	-	-
(135.0)	(1.8)	(7.0)	Re-measurement Gain/(Loss)	114.8	(0.5)	2.7
36.7	1.6	3.7	Benefits paid	38.4	1.6	3.8
(0.2)	-	-	Past service costs	(0.1)	-	-
(1.2)	-	(0.1)	Curtailments	(1.6)	-	(0.3)
5.1	-	-	Settlements	5.4	-	-
(1,217.3)	**(22.6)**	**(59.8)**	**Closing balance at 31 March**	**(1,147.5)**	**(22.4)**	**(55.7)**

2012/13 LGPS £m	Asset Category	2013/14 LGPS £m
	Equities	
73.9	- UK quoted	79.4
1.4	- UK unquoted	14.6
37.6	- Global quoted	40.2
92.5	- Global unquoted	79.1
43.9	- Europe	51.2
14.4	- Japan	14.1
32.4	- Pacific Basin	30.7
71.9	- North America	73.5
46.5	- Emerging Markets	61.8
	Bonds	
14.9	- UK Government fixed	14.7
50.6	- UK Government indexed	48.1
36.1	- UK other	36.7
24.8	- Overseas other	19.9
24.5	- Other	25.4
	Property	
46.1	- UK	45.3
2.5	- Overseas	1.7
15.3	- Property Funds	21.8
	Alternatives	
15.8	- Commodities	14.4
24.9	- Infrastructure	21.8
53.2	- Absolute Return	48.7
18.2	- Cash instruments	15.2
6.5	- Cash accounts	5.4
747.9	**Total**	**763.7**

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 £22.8 million (2012/13: (£82.3 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 £461.9 million has a substantial impact on the net worth of the council as recorded in the Balance Sheet, reducing it from £849.2 million to £387.3 million. However, statutory arrangements for funding the deficit mean that the financial position of the council remains healthy, because:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary;

- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2015 is £25.9 million. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2015 are £3.9 million.

The Discretionary Benefits arrangements have no assets to cover their liabilities. The Local Government Pension Scheme's assets are set out in the following table.
All scheme assets have quoted prices in active markets, except UK unquoted and global unquoted.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about things such as mortality rates and salary levels. Both the Teachers' Discretionary Pension Scheme and the West Midlands Pension Fund liabilities have been assessed by Mercer Limited, an independent firm of actuaries. Estimates for the West Midlands Pension Fund are based on the latest full valuation of the scheme as at 31 March 2010. The principal assumptions used by the actuary are set out in the following table.

2012/13			2013/14	
LGPS	Teachers		LGPS	Teachers
		Long-term expected rate of return on assets in the scheme:		
7.0%	n/a	Equity investments	7.0%	n/a
2.8%	n/a	Government Bonds	3.4%	n/a
3.9%	n/a	Other Bonds	4.3%	n/a
5.7%	n/a	Property	6.2%	n/a
0.5%	n/a	Cash/current assets	0.5%	n/a
7.0%	n/a	Other	7.0%	n/a
		Mortality assumptions:		
		Longevity at 65 for current pensioners:		
22.1	22.1	- Men	22.9	22.9
24.8	24.8	- Women	25.5	25.5
		Longevity at 65 for future pensioners:		
23.9	n/a	- Men	25.1	n/a
26.7	n/a	- Women	27.8	n/a
2.4%	2.4%	Rate of inflation	2.4%	2.4%
4.2%	-	Rate of increase in salaries	4.2%	-
2.4%	2.4%	Rate of increase in pensions	2.4%	2.4%
4.2%	3.7%	Rate for discounting scheme liabilities	4.4%	4.3%

Page 86

Analysis of Group Net Pension Liability

The following table analyses the net liability for the group.

31 March 2013			31 March 2014	
Local Government Pension Scheme £m	***Discretionary Pension Scheme £m***		***Local Government Pension Scheme £m***	***Discretionary Pension Scheme £m***
		Estimated Liabilities in Scheme		
(1,239.9)	*(59.8)*	*Wolverhampton City Council*	*(1,169.9)*	*(55.7)*
(122.1)	*-*	*Wolverhampton Homes Limited*	*(114.8)*	*-*
(1,362.0)	***(59.8)***	***Total Liabilities***	***(1,284.7)***	***(55.7)***
		Estimated Assets in Scheme		
747.9	*-*	*Wolverhampton City Council*	*763.7*	*-*
93.8	*-*	*Wolverhampton Homes Limited*	*100.3*	*-*
841.7	***-***	***Total Assets***	***864.0***	***-***
(520.3)	***(59.8)***	***Net Liabilities***	***(420.7)***	***(55.7)***

Note 7 – Financial Instruments

Note 7A – Leases and Lease-Type Arrangements

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

2012/13					2013/14			
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
0.5	**0.8**	**-**	**3.4**	**Payable/receivable in the year**	**0.2**	**0.8**	**-**	**2.9**
0.1	0.6	-	2.3	Due within one year	0.1	0.5	-	2.3
0.2	1.5	-	6.1	Due in one to five years	0.1	1.6	-	7.3
-	0.6	6.0	26.7	Due after five years	-	0.5	6.0	27.1
0.3	**2.7**	**6.0**	**35.1**	**Total due in future years**	**0.2**	**2.6**	**6.0**	**36.7**

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

31 March 2013 £m		31 March 2014 £m
0.5	Vehicles, Plant, Furniture and Equipment	0.3
0.5	**Total**	**0.3**

Note 7B – Private Finance Initiative and Similar Contracts

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

Bentley Bridge Leisure Centre: In 2006/07 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 Management Limited on behalf of the council. The contract period is for 30 years, with an end date of 31 October 2036. The total amount payable by the council over the life of the contract is £52.5 million. Over the remaining life of the project the commitments are:

	Payment for Services £m	Interest £m	Capital Expenditure /Principal Redemption £m	Total £m
Payable in 2014/15	0.3	0.9	0.2	**1.4**
Payable within two to five years	1.5	3.4	0.9	**5.8**
Payable within six to ten years	2.1	3.7	1.4	**7.2**
Payable within eleven to fifteen years	2.4	3.1	1.7	**7.2**
Payable within sixteen to twenty years	1.9	2.1	3.2	**7.2**
Payable within twenty-one to twenty-four years	1.0	0.4	2.4	**3.8**
Total	**9.2**	**13.6**	**9.8**	**32.6**

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

	Balance at 31 March 2013 £m	Depreciation £m	Capital Expenditure /Principal Redemption £m	Balance at 31 March 2014 £m
Property, Plant and Equipment	10.9	(0.4)	-	**10.5**
Long-term Liability	(9.0)	-	0.2	**(8.8)**
Total	**1.9**	**(0.4)**	**0.2**	**1.7**

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

	Payment for Services £m	Interest £m	Capital Expenditure /Principal Redemption £m	Total £m
Payable in 2014/15	6.3	0.8	1.0	**8.1**
Payable within two to five years	28.1	1.9	4.9	**34.9**
Payable within six to eight years	15.9	0.3	3.0	**19.2**
Total	**50.3**	**3.0**	**8.9**	**62.2**

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

	Balance at 31 March 2013 £m	Depreciation/ Amortisation £m	Capital Expenditure /Principal Redemption £m	Balance at 31 March 2014 £m
Property, Plant and Equipment	9.9	(1.2)	-	8.7
Deferred Income	(2.8)	0.3	-	(2.5)
Long-term Liability	(9.9)	-	0.9	(9.0)
Total	**(2.8)**	**(0.9)**	**0.9**	**(2.8)**

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

Page 91

	Payment for Services £m	Interest £m	Capital Expenditure /Principal Redemption £m	Total £m
Payable in 2014/15	1.8	4.8	0.6	**7.2**
Payable within two to five years	7.7	18.8	2.9	**29.4**
Payable within six to ten years	11.0	21.3	5.8	**38.1**
Payable within eleven to fifteen years	11.9	18.0	9.7	**39.6**
Payable within sixteen to twenty years	15.4	11.1	15.0	**41.5**
Payable within twenty-one to twenty-five years	12.1	3.2	14.4	**29.7**
Total	**59.9**	**77.2**	**48.4**	**185.5**

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

	Balance at 31 March 2013 £m	Depreciation £m	Capital Expenditure /Principal Redemption £m	Balance at 31 March 2014 £m
Property, Plant and Equipment	46.1	(1.8)	-	**44.3**
Long-term Liability	(44.0)	-	0.5	**(43.5)**
Total	**2.1**	**(1.8)**	**0.5**	**0.8**

Note 7C – Financial Instruments

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

31 March 2013					31 March 2014			
Carrying Value		Fair Value			Carrying Value		Fair Value	
Long-Term £m	Current £m	Long-Term £m	Current £m		Long-Term £m	Current £m	Long-Term £m	Current £m
				Financial Assets				
1.5	74.1	1.5	74.1	Loans and Receivables	1.4	88.7	1.4	88.7
18.6	-	18.6	-	Unquoted Equity Investment at Cost	20.3	-	20.3	-
-	3.5	-	3.5	Cash and Cash Equivalents	-	4.1	-	4.1
20.1	**77.6**	**20.1**	**77.6**	**Total Financial Assets**	**21.7**	**92.8**	**21.7**	**92.8**
				Financial Liabilities				
(588.3)	(120.4)	(644.6)	(122.2)	Financial Liabilities at Amortised Cost	(620.5)	(121.5)	(651.5)	(121.6)
(588.3)	**(120.4)**	**(644.6)**	**(122.2)**	**Total Financial Liabilities**	**(620.5)**	**(121.5)**	**(651.5)**	**(121.6)**
(568.2)	**(42.8)**	**(624.5)**	**(44.6)**	**Net Financial Liabilities**	**(598.8)**	**(28.7)**	**(629.8)**	**(28.8)**

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

2012/13					2013/14			
Financial Assets: Loans and Receivables	Financial Assets: Unquoted Equity Investment at Cost	Financial Liabilities Measured at Amortised Cost	Total		Financial Assets: Loans and Receivables	Financial Assets: Unquoted Equity Investment at Cost	Financial Liabilities Measured at Amortised Cost	Total
£m	£m	£m	£m		£m	£m	£m	£m
-	-	25.4	**25.4**	Interest Expense	-	-	31.3	**31.3**
(0.4)	-	-	**(0.4)**	Interest Income	(0.4)	-	-	**(0.4)**
(0.4)	**-**	**25.4**	**25.0**	**Net (Income)/Expense**	**(0.4)**	**-**	**31.3**	**30.9**

Page 94

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

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

Note 7D – Risks Arising from Financial Instruments

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

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

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

Credit and Counterparty Risk Management

The security of principal sums invested is the council's top priority when making investment decisions: accordingly it only places sums with institutions for whom credit risk is assessed as very low. In order to form this assessment the council applies the creditworthiness model supplied by its external treasury advisors Capita 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 2014 was £88.7 million (31 March 2013: £74.1 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 2013/14 or 2012/13.

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

2012/13 £m	Time until Repayment	2013/14 £m
39.0	Payable next year	45.0
103.2	Payable within two to five years	118.2
10.2	Payable within six to ten years	17.3
22.6	Payable within eleven to fifteen years	20.0
13.3	Payable within sixteen to twenty years	8.9
31.0	Payable within twenty-one to twenty-five years	31.0
39.9	Payable within twenty-six to thirty years	44.3
31.9	Payable within thirty-one to thirty-five years	27.5
53.2	Payable within thirty-six to forty years	97.6
44.3	Payable within forty-one to forty-five years	26.6
26.6	Payable within forty-six to fifty years	23.0
103.8	Payable within fifty-one to sixty years	103.8
519.0	**Total**	**563.2**

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 2013/14, the council's interest payable would have increased by £5.5 million, and its interest receivable would have increased by £353,000, resulting in an increase in net expenditure of £5.1 million. Had interest rates been 1% lower, equivalent decreases would have occurred, leading to a decrease in net expenditure of £5.1 million.

In 2012/13, if interest rates had been 1% higher the council's interest payable would have increased by £4.8 million, and its interest receivable would have increased by £307,000, resulting in an increase in net expenditure of £4.5 million.

Inflation Risk Management

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

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

Price Risk

The council does not generally invest in equity shares but does have shareholdings to the value of £18.7 million in Birmingham International Airport as well as an investment of £1.6 million in the SPV for Highfields PFI scheme. The council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings have arisen in the acquisition of specific interests, the council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares are all classified as 'unquoted equity investment at cost', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

Refinancing Risk Management

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

Legal and Regulatory Risk Management

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

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

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

Note 8 – Members of the Wolverhampton City Council Group and other Related Parties

Subsidiary
The council has one subsidiary entity: Wolverhampton Homes Limited. Wolverhampton Homes Limited is an arm's length management organisation (ALMO) which was established in 2005 to manage and maintain most of the council's housing stock, and is wholly owned by the council. The company's accounts have been wholly consolidated in the group elements of the financial statements.

Wolverhampton Homes Limited's main income stream comes from the council, in the form of a management fee for housing management and maintenance which amounted to £38.0 million in 2013/14 (2012/13: £37.0 million). 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 £46.1 million in 2013/14 (2012/13: £45.2 million), whilst payments by Wolverhampton Homes Limited to the council totalled £4.3 million (2012/13: £5.0 million). At the year end, Wolverhampton Homes Limited owed the council £1.6 million (2012/13: £1.2 million), and the council owed Wolverhampton Homes Limited £0.8 million (2012/13: £1.8 million).

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

2012/13 £m	Grant	2013/14 £m
(174.1)	Dedicated Schools Grant	(177.3)
(2.6)	Revenue Support Grant	(105.2)
(56.8)	Mandatory Rent Allowance	(59.0)
(54.5)	Standards Fund Capital	(58.6)
(56.0)	Mandatory Rent Rebates Subsidy	(56.4)
-	Top Up Grant	(34.6)
-	Public Health Grant	(18.8)
(15.5)	Decent Homes Backlog Grant	(14.1)
(9.8)	6th Form Funding	(7.7)
(13.6)	Section 31 Grant	(6.6)
(2.9)	Housing & Council Tax Benefit Administration	(2.8)
(1.1)	New Homes Bonus	(2.2)
(1.5)	Adult Community Learning PCDL	(1.6)
(1.2)	Further Education 19+	(1.3)
-	Social Fund Programme Grant	(1.3)
-	Weekly Collection Support Scheme	(1.3)
(1.3)	Disabled Facilities Grant	(1.1)
-	Adoption Reform Grant	(1.1)
(0.2)	Council Tax Freeze Grant	(1.0)
(134.2)	NNDR	-
(13.8)	Early Intervention Grant	-
(11.0)	Learning Disability & Health Reform	-
(27.6)	Council Tax Benefit	-
(7.6)	Other grants (each less than £1.0m)	(6.4)
(585.3)	**Total**	**(558.4)**

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: http://www2.wolverhampton.gov.uk/council/councillors/name

Other Related Parties

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

2012/13 Expenditure £m	2012/13 Income £m	Entity and Nature of Relationship	2013/14 Expenditure £m	2013/14 Income £m
-	(0.7)	Birmingham Airport Holdings Limited The council holds 4.7% of the total ordinary shares and 9.58% of the preference shares of the company. In 2013/14 the council received a preference dividend of £93,000, special dividend of £3.3 million, ordinary dividend of £641,000 and rental income of £78,000.	-	(4.1)
0.5	-	The Wolverhampton Grand Theatre (1982) Limited The Grand Theatre is managed by Wolverhampton Grand Theatre Limited. The council continues to own the building and retains the right to appoint or remove the majority of the members of the board of directors. The council provides grant funding to support the net cost of operating the theatre.	0.4	-
1.2	(1.2)	Wolverhampton Schools' Improvement Partnership The Wolverhampton Schools' Improvement Partnership is a company limited by guarantee established to advance educational opportunities and outcomes for children and young people in Wolverhampton. The board of directors comprises of representatives from each school cluster and phase and the senior substantive council officer for schools.	1.6	(1.6)
0.2	-	Lighthouse Media Centre The Lighthouse Media Centre is an independent company that develops and supports the creative industries. The council provides grant funding to support the net cost of operating the centre. The Lighthouse Media Centre leases premises within the Chubb Building which is owned by the council.	0.1	-
5.6	(1.7)	i54 The council is party to a joint venture with Staffordshire County Council for the development of i54 at Wobaston Road, Wolverhampton.	10.0*	(0.7)
		Entities in which Councillors have declared an interest:		
13.6	(0.4)	West Midlands Integrated Transport Authority	14.8	(3.6)
6.7	(0.1)	West Midlands Police Authority	6.2	-
3.4	-	West Midlands Fire Service	3.9	-
-	-	Advanced Childcare Limited	3.3	-

2012/13 Expenditure £m	2012/13 Income £m	Entity and Nature of Relationship	2013/14 Expenditure £m	2013/14 Income £m
0.2	-	City of Wolverhampton College	0.6	-
0.4	-	Wolverhampton Citizens Advice Bureau	0.6	-
0.2	-	Mencap	0.3	-
-	-	Royal Mail	0.3	-
-	-	FBC Manby Bowdler LLP	0.3	-
-	-	Base 25	0.3	-
0.2	(0.2)	North East Wolverhampton Academy (prev. Heath Park)	0.2	(0.2)
0.3	-	All Saints Action Network	0.2	-
-	-	Central Learning Partnership Trust	0.2	(0.3)
-	-	Mid Counties Co-op	0.1	-
-	-	Gazebo Theatre in Education Company Limited	0.1	-
-	-	Perry Hall Academy	-	(0.1)
-	-	Woden Academy	-	(0.1)
-	-	Our Lady and St Chad Catholic Sports College	-	(0.1)
-	-	Smestow School	-	(0.1)
-	-	Wolverhampton Girls High School	-	(0.1)
0.2	-	South Wolverhampton and Bilston Academy	-	-
0.1	-	Black Country Housing Group	-	-
0.1	-	Heath Town Senior Citizens Welfare Project	-	-

*There is an outstanding balance of £1.6 million payable to the i54.

Note 9 – Trust Funds

Wolverhampton City 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.

2012/13 Income £000	2012/13 Expenditure £000	Fund Value at 31 March 2013 £000	Fund Name and Purpose	2013/14 Income £000	2013/14 Expenditure £000	Fund Value at 31 March 2014 £000
-	-	42	**Springfield Reading Room** In its capacity as trustee, the council is authorised to apply income in various ways.	-	-	42
-	-	29	**Greenway Benefaction** Established for the convalescence, enjoyment, pleasure and amusement of poor children of Bradley.	-	-	29
-	-	16	**Butler Bequest Music in the Parks** To provide music in the parks.	1	-	17
-	-	10	**Monica Lloyd** To provide assistance with further education.	-	-	10
-	-	25	Other smaller funds	1	-	26
-	**-**	**122**	**Total**	**2**	**-**	**124**

Note 10 – Reconciliation of the Financial Statements to the Statutory Accounts

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

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

2012/13 £m	*Category*	*2013/14 £m*
(166.0)	*Fees, charges and other service income*	*(248.0)*
(1.1)	*Interest and investment income*	*(4.5)*
(93.7)	*Income from council tax*	*(73.2)*
(630.7)	*Government grants and contributions*	*(520.8)*
294.3	*Employee expenses*	*315.5*
515.7	*Other service expenses*	*459.0*
114.1	*Depreciation, amortisation and impairment*	*63.1*
25.4	*Interest payments*	*31.3*
13.4	*Precepts and levies*	*13.3*
1.5	*Payments to the national housing capital receipts pool*	*1.8*
27.6	*Loss or (gain) on the disposal of non-current assets*	*61.9*
100.5	***Deficit on the provision of services***	***99.4***

The following table shows the adjustments needed to get from the surplus or deficit on the provision of services as shown in the Group Comprehensive Income and Expenditure statement, to the surplus or deficit for the year calculated in line with the legal requirements, as shown in the segmental analysis in Note 1.

2012/13 £m		**2013/14 £m**
100.5	*Deficit on the provision of services*	*99.3*
(89.1)	*Less: items included in the segmental analysis but not included in the Comprehensive Income and Expenditure Statement*	*(108.5)*
(2.3)	*Less: Deficit attributable to subsidiaries*	*(1.9)*
9.1	***Deficit or (surplus) for the year***	***(11.1)***

The table below shows the adjustments needed to get from the net cost of services as shown in the Group Comprehensive Income and Expenditure statement, to the surplus or deficit for the year calculated in line with the legal requirements, as shown in the segmental analysis in Note 1.

Page 104

2012/13 £m		**2013/2014 £m**
324.3	*Net Cost of Services*	*269.2*
(312.9)	*Less: items included in the segmental analysis but not included in the Net Cost of Services*	*(278.3)*
(2.3)	*Less: Deficit attributable to subsidiaries*	*(1.9)*
9.1	***Deficit or (surplus) for the year***	***(11.0)***

10B – Detailed Analysis of Movement in Reserves Statement:
2013/14 Part 1 – Usable Reserves

	General Fund Balance	General Fund Earmarked Reserves	HRA Balance	HRA Earmarked Reserves	Major Repairs Reserve	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Balance Brought Forward	**(15.9)**	**(61.1)**	**(5.0)**	**-**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**
Surplus or Deficit on Provision of Services	**112.8**	**-**	**(15.4)**	**-**	**-**	**-**	**-**	**97.4**
Other Comprehensive Income and Expenditure								
Revaluations - Gains and losses	-	-	-	-	-	-	-	**-**
Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition	-	-	-	-	-	-	-	**-**
Re-measurements in the pensions reserve	-	-	-	-	-	-	-	**-**
Total Comprehensive Income and Expenditure	**112.8**	**-**	**(15.4)**	**-**	**-**	**-**	**-**	**97.4**
Adjustments between Accounting Basis & Funding Basis under Regulations								
Depreciation, amortisation & impairment of non-current assets	(62.6)	-	(0.5)	-	(21.9)	-	-	**(85.0)**
Difference between HRA depreciation and Major Repairs Allowance	-	-	-	-	-	-	-	**-**
Movement in the market value of Investment Properties	-	-	0.2	-	-	-	-	**0.2**
Revenue Expenditure Funded from Capital under Statute	(66.1)	-	-	-	-	-	-	**(66.1)**
Net Gain/Loss on sale of non-current assets (net book value of assets)	(67.3)	-	(7.0)	-	-	-	-	**(74.3)**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	4.1	-	8.4	-	-	(12.5)	-	**-**
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	(0.3)	-	-	-	-	-	-	**(0.3)**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	(0.7)	-	-	-	-	-	-	**(0.7)**

2013/14 Part 1 – Usable Reserves (Continued)

	General Fund Balance £m	General Fund Earmarked Reserves £m	HRA Balance £m	HRA Earmarked Reserves £m	Major Repairs Reserve £m	Usable Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Net Charges made for retirement benefits in accordance with IAS 19	(48.3)	-	-	-	-	-	-	**(48.3)**
Capital Expenditure charged in the year to the General Fund	0.1	-	-	-	-	-	-	**0.1**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	(1.8)	-	-	-	-	1.8	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	28.6	-	-	-	-	-	-	**28.6**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	-	-	-	-	99.5	**99.5**
Capital grants and contributions unapplied credited to CIES	102.0	-	-	-	-	-	(102.0)	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.9	-	-	-	-	-	-	**0.9**
Capital Expenditure Financed from UCR	-	-	-	-	-	6.6	-	**6.6**
Other income that cannot be credited to the General Fund	0.3	-	-	-	-	-	-	**0.3**
Revenue provision for the repayment of debt	4.5	-	14.5	-	-	-	-	**19.0**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	-	-	18.4	-	-	**18.4**
Net Increase/Decrease before Transfers & Other Movements	**6.2**	**-**	**0.2**	**-**	**(3.5)**	**(4.1)**	**(2.5)**	**(3.7)**
Transfers to/from other Earmarked Reserves	(17.3)	17.5	(0.2)	-	-	-	-	**-**
Balance Carried Forward	**(27.0)**	**(43.6)**	**(5.0)**	**-**	**(13.2)**	**(9.6)**	**(34.1)**	**(132.5)**

2013/14 Part 2 – Unusable Reserves and Reserves of Subsidiary

	Short-term Accumulating Compensated Absences Account	Available-for-sale Financial Instruments Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Total Unusable Reserves	TOTAL (Council)	*Reserves of Subsidiary*	*TOTAL (Group)*
	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*	*£m*
Balance Brought Forward	**6.9**	**(12.1)**	**(575.4)**	**0.5**	**3.2**	**551.7**	**(214.4)**	**(239.6)**	**(368.4)**	***22.8***	***(345.6)***
Surplus or Deficit on Provision of Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**97.4**	***1.9***	***99.3***
Other Comprehensive Income and Expenditure											
Revaluations - Gains and losses	-	-	-	-	-	-	(6.8)	**(6.8)**	**(6.8)**	-	***(6.8)***
Amounts recycled (AFS Reserve) to the I&E Account after impairment or derecognition	-	-	-	-	-	-	-	**-**	**-**	-	***-***
Re-measurements in the pensions reserve	-	-	-	-	-	(109.6)	-	**(109.6)**	**(109.6)**	*(16.5)*	***(126.1)***
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**(109.6)**	**(6.8)**	**(116.4)**	**(19.0)**	***(14.6)***	***(33.6)***
Adjustments between Accounting Basis & Funding Basis under Regulations											
Depreciation, amortisation & impairment of non-current assets	-	-	78.3	-	-	-	6.7	**85.0**	**-**	-	***-***
Difference between HRA depreciation and Major Repairs Allowance	-	-	-	-	-	-	-	**-**	**-**	-	***-***
Movement in the market value of Investment Properties	-	-	(0.2)	-	-	-	-	**(0.2)**	**-**	-	***-***
Revenue Expenditure Funded from Capital under Statute	-	-	66.1	-	-	-	-	**66.1**	**-**	-	***-***
Net Gain/Loss on sale of non-current assets (net book value of assets)	-	-	37.7	-	-	-	36.6	**74.3**	**-**	-	***-***
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	-	-	-	-	0.3	-	-	**0.3**	**-**	-	***-***
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	-	-	-	0.7	-	-	-	**0.7**	**-**	-	***-***

Page 107

Page 108

2013/14 Part 2 – Unusable Reserves and Reserves of Subsidiary (Continued)

	Short-term Accumulating Compensated Absences Account	Available-for-sale Financial Instruments Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Total Unusable Reserves	TOTAL (Council)	*Reserves of Subsidiary*	*TOTAL (Group)*
	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*	*£m*
Net Charges made for retirement benefits in accordance with IAS 19	-	-	-	-	-	48.3	-	**48.3**	**-**	-	**-**
Capital Expenditure charged in the year to the General Fund	-	-	(0.1)	-	-	-	-	**(0.1)**	**-**	-	**-**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	**-**	**-**	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	-	-	-	-	-	(28.6)	-	**(28.6)**	**-**	-	**-**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	(99.5)	-	-	-	-	**(99.5)**	**-**	-	**-**
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	-	-	**-**	**-**	-	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.9)	-	-	-	-	-	-	**(0.9)**	**-**	-	**-**
Capital Expenditure Financed from UCR	-	-	(6.6)	-	-	-	-	**(6.6)**	**-**	-	**-**
Other income that cannot be credited to the General Fund	-	-	(0.3)	-	-	-	-	**(0.3)**	**-**	-	**-**
Revenue provision for the repayment of debt	-	-	(19.0)	-	-	-	-	**(19.0)**	**-**	-	**-**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	(18.4)	-	-	-	-	**(18.4)**	**-**	-	**-**
Net Increase/Decrease before Transfers & Other Movements	**(0.9)**	**-**	**38.0**	**0.7**	**0.3**	**(89.9)**	**36.5**	**(15.3)**	**(19.0)**	***(14.6)***	***(33.6)***
Transfers to/from other Earmarked Reserves	-	-	-	-	-	-	-	**-**	**-**	-	**-**
Balance Carried Forward	**6.0**	**(12.1)**	**(537.4)**	**1.2**	**3.5**	**461.8**	**(177.9)**	**(254.9)**	**(387.4)**	***8.2***	***(379.2)***

2012/13 Part 1 – Usable Reserves

	General Fund Balance £m	General Fund Earmarked Reserves £m	HRA Balance £m	Major Repairs Reserve £m	Usable Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Balance Brought Forward	**(19.5)**	**(83.6)**	**(10.5)**	**(5.2)**	**(2.3)**	**(36.1)**	**(157.2)**
Deficit on Provision of Services	**107.5**	**-**	**(9.3)**	**-**	**-**	**-**	**98.2**
Other Comprehensive Income and Expenditure							
Revaluations - Gains and losses	-	-	-	-	-	-	**-**
Re-measurements in the pensions reserve	-	-	-	-	-	-	**-**
Total Comprehensive Income and Expenditure	**107.5**	**-**	**(9.3)**	**-**	**-**	**-**	**98.2**
Adjustments between Accounting Basis & Funding Basis under Regulations							
Depreciation, amortisation & impairment of non-current assets	(114.1)	-		(22.0)	-	-	**(136.1)**
Movement in the market value of Investment Properties	-	-	-	-	-	-	**-**
Revenue Expenditure Funded from Capital under Statute	(61.7)	-	-	-	-	-	**(61.7)**
Net Gain/Loss on sale of non-current assets (net book value of assets)	(32.1)	-	(4.8)	-	-	-	**(36.9)**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	4.0	-	5.5	-	(9.0)	-	**0.5**
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	(0.3)	-	-	-	-	-	**(0.3)**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	(0.4)	-	-	-	-	-	**(0.4)**

2012/13 Part 1 – Usable Reserves (Continued)

	General Fund Balance £m	General Fund Earmarked Reserves £m	HRA Balance £m	Major Repairs Reserve £m	Usable Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Net Charges made for retirement benefits in accordance with IAS 19	(41.5)	-	-	-	-	-	**(41.5)**
Capital Expenditure charged in the year to the General Fund	0.2	-	-	-	-	-	**0.2**
Transfer from UCR to meet payments to Housing Capital Receipts Pool	(1.5)	-	-	-	1.5	-	**-**
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	27.2	-	-	-	-	-	**27.2**
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	-	-	-	117.9	**117.9**
Capital grants and contributions unapplied credited to CIES	113.4	-	-	-	-	(113.4)	**-**
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.7)	-	-	-	-	-	**(0.7)**
Capital Expenditure Financed from UCR	-	-	-	-	4.3	-	**4.3**
Other income that cannot be credited to the General Fund	0.3	-	-	-	-	-	**0.3**
Revenue provision for the repayment of debt	25.6	-	14.3	-	-	-	**39.9**
Use of Major Repairs Allowance to Finance Capital Spend	-	-	-	17.5	-	-	**17.5**
Net Increase/Decrease before Transfers & Other Movements	**25.9**	**-**	**5.7**	**(4.5)**	**(3.2)**	**4.5**	**28.4**
Transfers from/to other Reserves	(22.3)	22.5	(0.2)	-	-	-	**-**
Balance Carried Forward	**(15.9)**	**(61.1)**	**(5.0)**	**(9.7)**	**(5.5)**	**(31.6)**	**(128.8)**

2012/13 Part 2 – Unusable Reserves and Reserves of Subsidiary

	Short-term Accumulating Compensated Absences Account £m	Available-for-sale Financial Instruments Reserve £m	Capital Adjustment Account £m	Collection Fund Adjustment Account £m	Financial Instruments Adjustment Account £m	Pensions Reserve £m	Revaluation Reserve £m	Total Unusable Reserves £m	*Reserves of Subsidiary £m*	*TOTAL (Group) £m*
Balance Brought Forward	**6.2**	**(12.1)**	**(603.8)**	**0.1**	**2.9**	**443.4**	**(275.2)**	**(438.5)**	***12.6***	***(583.1)***
Surplus or Deficit on Provision of Services	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	***2.3***	***100.5***
Other Comprehensive Income and Expenditure										
Revaluations - Gains and losses	-	-	-	-	-	-	35.1	**35.1**	-	***35.1***
Actuarial Gain/Loss in the pensions reserve	-	-	-	-	-	94.0	-	**94.0**	*7.9*	***101.9***
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**94.0**	**35.1**	**129.1**	***10.2***	***237.5***
Adjustments between Accounting Basis & Funding Basis under Regulations										
Depreciation, amortisation & impairment of non-current assets	-	-	121.9	-	-	-	14.2	**136.1**	-	**-**
Movement in the market value of Investment Properties	-	-	-	-	-	-	-	**-**	-	**-**
Revenue Expenditure Funded from Capital under Statute	-	-	61.7	-	-	-	-	**61.7**	-	**-**
Net Gain/Loss on sale of non-current assets (net book value of assets)	-	-	25.4	-	-	-	11.5	**36.9**	-	**-**
Net Gain/Loss on sale of non-current assets (disposal proceeds)	-	-	(0.5)	-	-	-	-	**(0.5)**	-	**-**
Difference between statutory debit/credit and amount recognised as income and expenditure in respect of financial instruments	-	-	-	-	0.3	-	-	**0.3**	-	**-**
Difference between amounts credited to the CIES and amounts to be recognised under statutory provisions relating to Council Tax	-	-	-	0.4	-	-	-	**0.4**	-	**-**

Page 111

2012/13 Part 2 – Unusable Reserves and Reserves of Subsidiary (Continued)

	Short-term Accumulating Compensated Absences Account	Available-for-sale Financial Instruments Reserve	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Total Unusable Reserves	*Reserves of Subsidiary*	*TOTAL (Group)*
	£m	£m	£m	£m	£m	£m	£m	£m	*£m*	*£m*
Net Charges made for retirement benefits in accordance with IAS 19	-	-	-	-	-	41.5	-	**41.5**	-	-
Capital Expenditure charged in the year to the General Fund	-	-	(0.2)	-	-	-	-	**(0.2)**	-	-
Transfer from UCR to meet payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	**-**	-	-
Employer's contributions payable to the Pension Fund and retirement benefits paid directly to pensioners	-	-	-	-	-	(27.2)	-	**(27.2)**	-	-
Application of Capital Grants and Contributions to capital financing transferred to the CAA	-	-	(117.9)	-		-	-	**(117.9)**	-	-
Capital grants and contributions unapplied credited to CIES	-	-	-	-	-	-	-	**-**	-	-
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.7	-	-	-	-	-	-	**0.7**	-	-
Capital Expenditure Financed from UCR	-	-	(4.3)	-	-	-	-	**(4.3)**	-	-
Other income that cannot be credited to the General Fund	-	-	(0.3)	-	-	-	-	**(0.3)**	-	-
Revenue provision for the repayment of debt	-	-	(39.9)	-	-	-	-	**(39.9)**	-	-
Use of Major Repairs Allowance to Finance Capital Spend	-	-	(17.5)	-	-	-	-	**(17.5)**	-	-
Net Increase/Decrease before Transfers & Other Movements	**0.7**	**-**	**28.4**	**0.4**	**0.3**	**108.3**	**60.8**	**198.9**	***10.2***	***237.5***
Transfers to/from other Earmarked Reserves								**-**	-	-
Balance Carried Forward	**6.9**	**(12.1)**	**(575.4)**	**0.5**	**3.2**	**551.7**	**(214.4)**	**(239.6)**	***22.8***	***(345.6)***

10C – Description of Reserves

Name of Reserve	Description
Usable Reserves	
Revenue	
General Fund Balance	The General Fund is the statutory fund into which all the receipts of an authority are required to be paid, and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year (however, the balance is not available to be applied to funding HRA services: see Housing Revenue Account Balance below).
Housing Revenue Account Balance	The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.
Earmarked Reserves	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 Insurance Reserve (£3.3 million), the Job Evaluation Reserve (£2.6 million) and the FutureWorks Reserve (£2.4 million). A detailed breakdown is provided below.
Capital	
Major Repairs Reserve	The council is required to maintain the Major Repairs Reserve, which controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year end.
Capital Receipts Reserve	The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.
Capital Grants Unapplied Account	The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Name of Reserve	Description
Unusable Reserves	
Revaluation Reserve	The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are 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 and gains recognised on donated assets that have yet to be consumed by the council. It also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.
Financial Instruments Adjustment Account	The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.
Pensions Reserve	The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Name of Reserve	Description
Collection Fund Adjustment Account	The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax 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.

Transfers to/from Earmarked Reserves

The table below provides a breakdown of the transfers to/from earmarked reserves as detailed in the Movement in Reserves Statement

Balance at 31 March 2012 £m	Net Movement 2012/13 £m	Balance at 31 March 2013 £m	Specific Reserve	Balance at 31 March 2013 £m	Net Movement 2013/14 £m	Balance at 31 March 2014 £m
19.5	**(3.6)**	**15.9**	**General Fund Balance**	**15.9**	**(6.1)**	**27.0**
			General Fund Earmarked Reserves **Community**			
0.3	(0.3)	**-**	Additional Learning Disability Funding Reserve	-	-	**-**
0.3	(0.3)	**-**	Adult Services Learning Disabilities Budget Pressures Reserve	-	-	**-**
0.1	-	**0.1**	Adult Services Market Plaza Reserve	0.1	(0.1)	**-**
0.1	0.9	**1.0**	Adult Services Residential & Nursing Reserve	1.0	(1.0)	**-**
-	-	**-**	Building Resilience Reserve - Community	-	-	**-**
0.1	0.1	**0.2**	HRA Homelessness	0.1	-	**0.1**
0.2	0.1	**0.3**	Library Equipment	0.2	(0.1)	**0.1**
0.8	(0.8)	**-**	Learning Disability Continuing Healthcare Pressures Reserve	-	-	**-**
-	-	**-**	Looked After Children Transformation Reserve	-	0.3	**0.3**
-	-	**-**	Public Health	-	2.7	**2.7**
-	0.1	**0.1**	Social Inclusion IT Reserve	0.1	(0.1)	**-**
0.2	(0.1)	**0.1**	Sport and Recreation Leisure Trust Reserve	0.1	(0.1)	**-**
0.1	(0.1)	**-**	Tettenhall Wood Short Break Provision Reserve	-	-	**-**
0.1	(0.1)	**-**	Third Sector Development	0.1	(0.1)	**-**
0.1	-	**0.1**	Troubled Families	0.1	(0.1)	**-**
-	0.1	**0.1**	Troubled Families Programme	0.1	-	**0.1**
0.1	-	**0.1**	Voluntary Sector Employment Support	0.1	(0.1)	**-**
0.6	(0.6)	**-**	Winter Pressures Reserve	0.1	(0.1)	**-**
0.3	(0.1)	**0.2**	Youth Cafe Reserve	0.3	(0.1)	**0.2**
-	0.1	**0.1**	Youth Offending IT Reserve	0.1	-	**0.1**
0.3	-	**0.3**	Youth Zone	0.3	(0.1)	**0.2**
0.1	(0.2)	**(0.1)**	Reserves less than £0.1million	(0.2)	0.1	**(0.1)**
3.8	**(1.2)**	**2.6**	**Community Sub Total**	**2.6**	**1.1**	**3.7**

Balance at 31 March 2012 £m	Net Movement 2012/13 £m	Balance at 31 March 2013 £m	Specific Reserve	Balance at 31 March 2013 £m	Net Movement 2013/14 £m	Balance at 31 March 2014 £m
			Education and Enterprise			
-	0.1	**0.1**	Apprenticeship Scheme Reserve	0.1	-	**0.1**
-	-	**-**	Art Gallery Touring Exhibitions Reserve	-	-	**-**
-	-	**-**	Building Control Account	-	-	**-**
0.1	-	**0.1**	Building Control Service Improvements	0.1	-	**0.1**
1.6	(1.0)	**0.6**	Building Schools for the Future Reserve (BSF)	0.6	(0.6)	**-**
0.1	-	**0.1**	Economic Development Reserve	0.1	0.1	**0.2**
0.1	-	**0.1**	Leisure Funds and Bequests Reserve	-	-	**-**
-	-	**-**	Licensing Reserve	-	0.1	**0.1**
0.5	0.2	**0.7**	Pupil Referral Units Reserve	0.7	0.2	**0.9**
1.2	(0.2)	**1.0**	Regeneration Reserve	1.0	0.9	**1.9**
21.2	(3.6)	**17.6**	Schools Balances	17.6	(1.6)	**16.0**
0.5	(0.5)	**-**	School Improvement Partnership Reserve	-	-	**-**
1.0	(0.7)	**0.3**	School Service Level Agreements Reserve (SLA)	0.3	(0.3)	**-**
0.1	-	**0.1**	Schools Arts Service Reserve	0.1	-	**0.1**
0.2	-	**0.2**	Showell Road Travellers Site Reserve	0.2	-	**0.2**
-	-	**-**	Showell Road Travellers Site - Residents Deposits	-	-	**-**
4.4	(0.5)	**3.9**	Southside Reserve	4.0	(3.2)	**0.8**
0.1	-	**0.1**	Surface Water Management Plan Reserve	0.1	(0.1)	**-**
0.3	(0.2)	**0.1**	Voluntary Sector and Community Partnership Reserve	0.2	-	**0.2**
0.2	(0.1)	**0.1**	Reserves less than £0.1million	-	-	**-**
31.6	**(6.5)**	**25.1**	**Education and Enterprise Sub Total**	**25.1**	**(4.5)**	**20.6**

Page 118

Balance at 31 March 2012 £m	Net Movement 2012/13 £m	Balance at 31 March 2013 £m	Specific Reserve	Balance at 31 March 2013 £m	Net Movement 2013/14 £m	Balance at 31 March 2014 £m
			Office of the Chief Executive and Delivery			
0.1	-	**0.1**	Cemeteries and Crematorium Reserve	0.1	0.1	**0.2**
0.1	-	**0.1**	Cemeteries Surplus Reserve	0.1	(0.1)	**-**
0.1	-	**0.1**	Corporate Advertising Reserve	0.1	(0.1)	**-**
-	-	**-**	Crematorium Environmental Reserve	-	-	**-**
0.2	0.1	**0.3**	Energy Efficiency Reserve	0.3	0.2	**0.5**
0.1	-	**0.1**	Feasibility Study Civic Centre Car Park Reserve	0.1	(0.1)	**-**
0.1	-	**0.1**	Furniture Reserve	0.1	-	**0.1**
4.4	(0.3)	**4.1**	Insurance Reserve	4.1	(0.7)	**3.4**
-	-	**-**	Markets Reserve	-	-	**-**
-	-	**-**	Transformation Reserve	-	0.9	**0.9**
5.1	**(0.2)**	**4.9**	**OCE and Delivery Sub Total**	**4.9**	**0.2**	**5.1**
			Corporate			
-	-	**-**	Blocks 10 & 11 Treasury Management Reserve	-	0.8	**0.8**
3.0	-	**3.0**	Budget Contingency Reserve	3.0	(2.5)	**0.5**
1.0	(1.0)	**-**	Budget 2012/13 Support Reserve	-	-	**-**
20.0	(20.0)	**-**	Budget Future Years Support	-	-	**-**
3.5	2.9	**6.4**	Efficiency Reserve	6.4	(0.9)	**5.5**
0.6	(0.3)	**0.3**	Jennie Lee Centre Disposal Reserve	0.4	(0.2)	**0.2**
4.2	3.1	**7.3**	Job Evaluation Reserve	7.3	(4.7)	**2.6**
0.4	(0.1)	**0.3**	Local Strategic Partnership Reserve	0.3	(0.2)	**0.1**
0.5	-	**0.5**	Professional Support and Advice Reserve	0.5	(0.5)	**-**
4.2	(0.4)	**3.8**	Revenue Grants Unapplied (IFRS) Reserve	3.7	(1.8)	**1.9**
5.7	0.9	**6.6**	FutureWorks Reserve	6.6	(4.2)	**2.4**
-	0.3	**0.3**	Systems Thinking and Lean Interventions	0.3	(0.3)	**-**
-	-	**-**	Reserves less than £0.1million	-	0.2	**0.2**
43.1	**(14.6)**	**28.5**	**Corporate Sub Total**	**28.5**	**(14.3)**	**14.2**
83.6	**(22.5)**	**61.1**	**Total General Fund Earked Reserves**	**61.1**	**(17.5)**	**43.6**

Note 11 – Accounting Policies

Note 11A – Accounting Policies Applying to these Statements

1. General Principles

The Statement of Accounts summarises the council's transactions for the 2013/14 financial year and its position at 31 March 2014. The council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS). These policies have been applied consistently throughout the year. These accounts have been prepared on a going concern basis.

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

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.

- Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than necessarily the cash flows fixed or determined by the contract.

- Where revenue and expenditure has been recognised but cash has not been received or paid, a receivable or payable for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

- Manual Accruals are only processed for amounts of £10,000 or more. Except where the expenditure is by schools or funded directly from external grants.

3. Cash and Cash Equivalents

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

4. Exceptional Items

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

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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

7. 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 Short-term Accumulating Compensated 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 council can no longer withdraw the offer of those benefits or when the council 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 two separate pension schemes:

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

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

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

The Local Government Pension Scheme

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

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

- Quoted securities – current bid price;

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

The change in the net pensions liability is analysed into 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 as part of Non-Distributed Costs;
- Net interest on the net defined benefit liability / asset, i.e. net interest expense for the council – the change during the period in the net defined benefit liability / asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / asset at the beginning of the period – taking into account any changes in the net defined benefit liability / asset during the period as a result of contribution and benefit payments.

Changes in valuations comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability / asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;

- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve and recognised as Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

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

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

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

8. Events after the Reporting Period

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

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

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

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

9. Financial Instruments

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

For most of the borrowing that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement.

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

Financial Assets - Financial assets are classified into two types:

- Loans and receivables - assets that have fixed or determinable payments but are not quoted in an active market;

- Available-for-sale assets - assets that have a quoted market price and / or do not have fixed or determinable payments.

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

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

Available–for-Sale Assets - Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the council.

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

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

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

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

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

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

10. Foreign Currency Translation

Where the council entered into a transaction denominated in a foreign currency, the transaction was converted into sterling at the exchange rate applicable on the date the transaction was effective.

11. Government Grants and Contributions

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

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

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

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

12. Intangible Assets

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

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

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

13. Interests in Companies and Other Entities

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

14. Inventories

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

15. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

16. Jointly Controlled Operations and Jointly Controlled Assets

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

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

17. Leases

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

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

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

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

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

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

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

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

Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property - applied to write down the lease receivable (together with any premiums received) – and finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is 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 receivable. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

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).

18. Overheads and Support Services

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

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

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

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

19. Property, Plant and Equipment

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

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

Measurement - Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, subject to a de-minimis value of £100,000 for land and property and heritage assets and £10,000 for new vehicles, plant and equipment. The council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

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

- Dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH);

- All other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. 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 as estimated by the valuer;
- Vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset;
- Infrastructure - straight-line allocation over 50 years.

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

Disposals

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment (or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

20. Private Finance Initiative (PFI) and Similar Contracts

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator, from the council and third parties where relevant, to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

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

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

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

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

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

- Lifecycle replacement costs - proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.
- Third party income – credited to the Comprehensive Income and Expenditure Statement, reflecting the extent to which the asset and the service are financed by third party income.

21. Provisions, 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.

22. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision for Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

23. Revenue Expenditure Funded from Capital under Statute

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

24. Value Added Tax

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

25. Pension Fund Accounts

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

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

26. Heritage Assets

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

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

27. Accounting for the Carbon Reduction Commitment Scheme

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the council is recognised and reported in the costs of the council's services and is apportioned to services on the basis of energy consumption. CRC scheme assets are classified as either current intangible assets or if held for the purposes of trading, as current assets. The asset is initially measured at cost. Allowances that are issued for less than their fair value are initially measured at their fair value, with the difference between fair value and the purchase price recognised as income.

Note 11B – Changes in Accounting Policies from Last Year

In accordance with the Code, the council has adopted the amendments to IAS 19 Employee Benefits and restated 2012/13 accounts.

A reconciliation of prior year amounts to the restated amounts within the Group Comprehensive Income and Expenditure Statement is shown below. It has no impact on the total comprehensive income and expenditure.

Comprehensive Income and Expenditure Statement (Group)	***2012/13 Net Expenditure £m***	***Adjustment***	***Restated 2012/13 Net Expenditure £m***
Non-Distributed Costs	*(2.5)*	*1.1*	*(1.4)*
Net Cost of Services	***323.2***		***324.3***
Pensions Interest Cost and Expected Return on Pensions Assets	*14.0*	*(14.0)*	*-*
Net Interest Expense	*-*	*21.7*	*21.7*
Deficit on the Provision of Services	***91.7***		***100.5***
Actuarial (Gains) and Losses on Pension Assets and Liabilities	*110.7*	*(110.7)*	*-*
Re-measurements	*-*	*101.9*	*101.9*
Total Comprehensive Income and Expenditure	***237.5***		***237.5***

The council has not adopted the amendments to IAS 1 Presentation of Financial Statements (Issued in 2011), as it does not have such transactions that are re-classifiable to the Surplus or Deficit on the Provision of Services. Therefore, the items in Other Comprehensive Income and Expenditure have not been grouped into amounts that may be reclassifiable and amounts that are not.

Note 11C – Critical Judgements Made When Applying the Accounting Policies

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

Group Accounts

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

The council is the main funder of the Grand Theatre, and in practice bears the risk of the Theatre going into overall deficit. However, it has been determined that the transactions and balances of the theatre company are not material to the council's accounts, and it has therefore not been consolidated in the Group Accounts.

During 2012/13, the Wolverhampton Schools' Improvement Partnership was established as a company limited by guarantee. The directors of the company are representatives of local schools and the senior substantive council officer for schools. Two councillors are non-voting directors. Whilst in this way the council exerts significant influence over the activities of the company, it has been determined that the transactions and balances of the company are not material to the council's accounts, and it has therefore not been consolidated in the Group Accounts.

The council, along with the other six West Midlands district councils, holds shares in Birmingham International Airport. However, it has been determined that the council does not have the power to influence or control the airport, and it has therefore not been consolidated in the Group Accounts.

Private Finance Initiative (PFI) Contracts

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

Equal Pay Back Pay

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

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

Property, Plant and Equipment belonging to Voluntary Aided Schools

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

Property, Plant and Equipment belonging to Academy Schools

When an agreement in principle has been made for a school to convert to Academy status on a long term lease the lease is classified as a finance lease, since substantially all associated risks and rewards of ownership of the asset have been transferred. As the council would no longer control or maintain the asset for the majority of its economic life the buildings are removed from the balance sheet as a disposal.

Accounting for the Voluntary Redundancy Programme

The council undertook a voluntary redundancy exercise during 2013/14, and there were a number of employees who were part-way through the approval process at the year end. The council has taken a prudent approach to the treatment of the anticipated costs of such employees, recognising those costs in 2013/14 where it seemed likely that approval would be given and a redundancy would result.

Business Rates

As part of the changes to business rates retention, commencing 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 2012/13 and earlier. The council has set aside a provision for these refunds, calculated using the Valuation Office list of ratings appeals data.

Note 11D – Major Assumptions about the Future

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

The items in the council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Variation to Assumptions	Impact on Net Liability	
	Council	*Group*
Discount Rate 0.1% higher	Decrease of £21.0m	*Decrease of £23.4m*
Salary Inflation 0.1% p.a. higher	Increase of £21.3m	*Increase of £23.8m*
Pay Growth 0.1% p.a. higher	Increase of £4.8m	*Increase of £5.7m*
Life expectancy of scheme members 1 year higher	Increase of £23.8m	*Increase of £25.9m*

Property, Plant and Equipment

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

Note 11E – Accounting Standards Issued but Not Yet Adopted

The Code of Practice on Local Council Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2014. If these had been adopted for the financial year 2013/14 there would be no material changes as detailed below.

- In accordance with the Code, the council has not adopted IFRS 13 Fair Value Measurement, which has been deferred until 2014/15. IFRS 13 aims to provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The application of this standard to local government assets and liabilities will be considered in detail in the development of the 2014/15 Code.
- IFRS 10 Consolidated Financial Statements – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The largest subsidiary of the council is Wolverhampton Homes Limited, which is already consolidated into the group accounts. From 2014/15 Yoo recruit, the council's new recruitment agency, will be consolidated into the accounts, assuming the transactions are material.
- IFRS 11 Joint Arrangements – This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities. The council has no material joint venture arrangements.
- IFRS 12 Disclosures of Involvement with Other Entities – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The council has a number of arrangements with other entities under IFRS12.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10, IFRS 11 and IFRS 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.
- IAS 32 Financial Instruments Presentation – The Code refers to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified in the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

Housing Revenue Account Income and Expenditure Statement

2012/13 £m		Notes	2013/14 £m
(83.0)	Gross Rents - Dwellings		(88.9)
(1.6)	Gross Rents - Non Dwellings		(1.6)
(5.0)	Charges to Tenants for Services and Facilities		(5.0)
-	Contributions		-
(89.6)	**Total Income**		**(95.5)**
26.1	Repairs and Maintenance		25.9
17.3	Supervision and Management		18.4
0.2	Rents, Rates and Taxes		0.4
0.6	Increase in Allowance for Bad Debts		0.9
22.6	Depreciation of Property, Plant and Equipment	**H1**	21.9
66.8	**Total Expenditure**		**67.5**
(22.8)	**Net Cost of HRA Services as Included in Council Comprehensive Income and Expenditure Statement**		**(28.0)**
0.2	HRA Share of Corporate and Democratic Core		0.2
(22.6)	**Net Cost of HRA Services**		**(27.8)**
(0.7)	(Gain) on Sale of Property, Plant and Equipment		-
-	(Gain) on the Fair Value of Investment Assets		(0.2)
14.2	Interest Payable		13.4
-	Premiums and Discounts		-
(0.2)	Interest and Investment Income		(0.1)
(9.3)	**Surplus for the Year**		**(14.7)**

Movement on the Housing Revenue Account Balance Statement

2012/13 £m		Notes	2013/14 £m
(10.5)	**Opening HRA Balance**		**(5.0)**
	(Increase)/Decrease in the HRA balance for the year analysed between:		
(9.3)	- (Surplus) for the year on the Income and Expenditure Account		(14.9)
14.8	- Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA balance for the year	**H3**	14.9
5.5	**(Increase)/Decrease in the HRA balance for the year**		**-**
(5.0)	**Closing HRA Balance**		**(5.0)**

Notes to the Housing Revenue Account Statements

Note H1 – Depreciation

2012/13 £m		2013/14 £m
21.9	Council Dwellings	21.9
0.5	Other Land and Buildings	0.2
0.2	Vehicles, Plant, Furniture and Equipment	0.2
22.6	**Total Depreciation Charge for the Year**	**22.3**

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 – Impairment

There were no impairments in 2013/14 or 2012/13.

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

2012/13 £m		Note	2013/14 £m
14.8	**Net additional amount required to be debited or credited to the HRA Balance**		**14.9**
	Comprising:		
	Amounts included in the Income and Expenditure Account but not in the HRA Balance		
0.7	- Net Gain on Sale of Property, Plant and Equipment		-
	- Net Gain / (Loss) on the Fair Value of Investment Assets		0.2
0.7	**Subtotal**		**0.2**
	Amounts not in the Income and Expenditure Account but included in the HRA Balance		
-	- HRA Share of Contribution to Pension Reserve	**H4**	0.2
14.3	- Amount Set Aside for the Repayment of Debt		14.5
(0.2)	- Transfer to/(from) Earmarked Reserves		-
14.1	**Subtotal**		**14.7**
14.8	**Total**		**14.9**

Page 146

Note H4 – Contribution to the Pension Reserve

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

Note H5 – Housing Stock

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

31 March 2013		31 March 2014
5,032	Low Rise Flats	4,995
3,016	Medium Rise Flats	2,991
2,119	High Rise Flats	2,120
13,127	Houses and Bungalows	12,987
23,294	**Total Dwellings Owned by the Council**	**23,093**
14	Homeless Dwellings (Leased)	14
23,308		**23,107**

Note H6 – Housing Revenue Account Property, Plant and Equipment

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

31 March 2013 £m		31 March 2014 £m
687.8	- Council Dwellings	702.0
9.5	- Other Land and Buildings	10.0
0.2	- Vehicles, Plant, Furniture and Equipment	0.1
0.7	- Intangible Assets	0.5
698.2	**Total Property, Plant and Equipment**	**712.6**

Note H7 – The Vacant Possession Value of Dwellings

The vacant possession value of the stock of dwellings at 31 March 2014 (at 1 April 2010 prices) amounted to £2,064.7 million (31 March 2013: £2,022.9 million). The value of dwellings shown on the Balance Sheet is the existing use value (social housing), which is 34% of the vacant possession value (this ratio is set by the government). The difference between the two values demonstrates the economic cost to government of providing council housing at less than open market rents.

Note 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.

2012/13 £m		2013/14 £m
	Sources of Funding	
(1.4)	- Borrowing	(11.1)
(1.3)	- Usable Capital Receipts	(1.8)
(17.5)	- Major Repairs Reserve	(18.3)
(20.7)	- Government and EU Grants	(11.9)
(0.5)	- Other Grants and Contributions	-
(41.4)	**Total Capital Expenditure**	**(43.1)**

Capital receipts generated during 2013/14 from the disposal of HRA assets are detailed in the following table.

2012/13 £m		2013/14 £m
(4.7)	Sale of Council Houses (Right-to-Buy)	(8.0)
(0.8)	Sale of Other Land and Buildings	(0.4)
(5.5)	**Total Capital Receipts**	**(8.4)**

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

2012/13 £m		2013/14 £m
(1.5)	Paid over to Government	(1.8)
(4.0)	Available to Finance Capital Expenditure	(6.6)
(5.5)	**Total Capital Receipts**	**(8.4)**

Note H9 – Rent Arrears

During 2013/14, total rent arrears increased by £300,000 (16.7%). Within total rent arrears, current tenants' arrears as a proportion of gross rental income increased from 1.2% to 1.3%. The comparative total figures are shown in the following table.

31 March 2013 £m		31 March 2014 £m
1.0	Current Tenants	1.2
0.8	Former Tenants	0.9
1.8	**Total Arrears**	**2.1**

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

2012/13 £m		2013/14 £m
1.5	**Allowance for Bad and Doubtful Debts Brought Forward**	**1.5**
(0.5)	Amounts Written Off during the Year	(0.4)
0.5	Increase in Allowance Charged to the HRA during the Year	0.5
1.5	**Allowance for Bad and Doubtful Debts Carried Forward**	**1.6**

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.

2012/13 £m		2013/14 £m
(5.2)	**Balance Brought Forward**	**(9.6)**
(21.9)	Transfer of MRA from the Capital Adjustment Account	(21.9)
17.5	Capital Expenditure on Land and Property in the HRA	18.3
(9.6)	**Balance Carried Forward**	**(13.2)**

8. THE COLLECTION FUND STATEMENT

The Collection Fund Statement

2012/13 £m		Note	2013/14 £m
-	**Deficit Brought Forward**		**0.6**
	Income		
(78.1)	Council Tax	**C1**	(83.4)
(27.1)	Transfers from General Fund: Council Tax Benefits		-
(72.1)	Non Domestic Rates	**C2**	(75.9)
-	Grant Income		(1.0)
(177.3)	**Total Income**		**(160.3)**
	Expenditure		
	Precepts and Demands		
94.3	Wolverhampton City Council		73.3
7.1	West Midlands Police		5.7
3.4	West Midlands Fire and Civil Defence		2.9
104.8			**81.9**
	Non Domestic Rates		
70.0	Payments to National Pool		-
-	Central Government		35.5
-	West Midlands Fire and Civil Defence		0.7
-	Wolverhampton City Council		35.2
0.4	Cost of Collection Allowance		0.3
70.4			**71.7**

8. THE COLLECTION FUND STATEMENT

2012/13 £m		Note	2013/14 £m
	Distribution of Council Tax Surplus		
-	Wolverhampton City Council		0.2
-	West Midlands Police		-
-	West Midlands Fire and Civil Defence		-
	Distribution of Business Rates Surplus/(Payment of Deficit)		
-	Wolverhampton City Council		-
-	Central Government		-
-	West Midlands Fire and Civil Defence		-
	Allowance for Bad and Doubtful Debts		
0.9	Council Tax		1.1
1.8	Non Domestic Rates		2.6
2.7	Total Allowance for Bad and Doubtful Debts		**3.7**
-	Provision for appeals		4.2
	5 year spread adjustment		(2.7)
177.9	**Total Expenditure**		**159.0**
0.6	**Deficit/(surplus) for the Year**		**(1.3)**
0.6	**Deficit/(surplus) Carried Forward**		**(0.7)**

Notes to the Collection Fund Statement

Note C1 – The Council Tax Base

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

Band	Total Number of Chargeable Dwellings after Effect of Discount	Ratio	Band D Equivalent Dwellings	Council Tax (Single Person Household)	Council Tax (Multiple Occupancy)
				£	£
A Disabled	91	5/9	51	614	818
A	46,797	6/9	31,198	736	981
B	20,375	7/9	15,847	859	1,145
C	14,254	8/9	12,670	981	1,308
D	5,675	9/9	5,675	1,104	1,472
E	2,685	11/9	3,282	1,349	1,799
F	1,531	13/9	2,210	1,595	2,126
G	787	15/9	1,311	1,840	2,453
H	83	18/9	167	2,208	2,944
	92,278		**72,411**		
Add: Additional Band D Equivalent Dwellings from removing 50% Council Tax Discount for owners of long term void homes			13		
Add: Reliefs and deletions			113		
Less: Allowance for collection difficulties (98.75%)			(906)		
Total Band D Tax Base			**71,631**		

Note C2 – National 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.

In 2013/14 the administration of NNDR changed following the introduction of business rates retention. Instead of paying NNDR into a central pool, local authorities retain a proportion of the total collectable rates due. In Wolverhampton, the council retain 49%, 50% is paid to central government and the remaining 1% is paid to West Midlands Fire Service.

The total non-domestic rateable value was £190.3 million as at 31 March 2014 (£190.5 million as at 31 March 2013). The national multipliers for 2013/14 were 46.2p for qualifying small businesses, and the standard multiplier was 47.1p for all other businesses (45.0p and 45.8p respectively in 2012/13).

9. WEST MIDLANDS PENSION FUND STATEMENTS

Fund Account

2012/13 £m		Note	2013/14 £m
	Contributions & Benefits		
410.9	Contributions Receivable	**P7**	419.3
22.6	Transfers In	**P8**	11.3
16.2	Other Income	**P9**	16.2
449.7	**Total contributions and other income**		**446.8**
445.1	Benefits Payable	**P10**	472.4
15.8	Payments to and on account of leavers	**P11**	23.0
0.2	Other Payments		0.3
5.3	Administration Expenses	**P12**	5.0
466.4	**Total benefits and other expenditure**		**500.7**
(16.7)	**Net additions from dealings with members**		**(53.9)**
	Returns on Investments		
136.8	Investment Income	**P15**	134.8
846.0	Changes in Value of Investments		85.4
97.7	Profit and Losses on Disposal of Investments		103.0
(11.3)	Investment Management Expenses	**P12**	(11.2)
1,069.2	**Net return on investments**		**312.0**
1,052.5	**Net increase in the Fund during the year**		**258.1**
8,833.8	**Net Assets of the Fund at the beginning of the year**		**9,886.3**
9,886.3	**Net Assets of the Fund at the end of the year**		**10,144.4**

Net Assets Statement

31 March 2013 £m		Note	31 March 2014 £m
	Investment Assets (at Market Value)	**P16**	
173.9	Fixed Interest Securities		171.3
943.5	UK Equities		971.3
2,072.5	Overseas Equities		3,155.9
5,729.4	Pooled Investment Vehicles		4,908.2
567.6	Property		629.8
82.9	Foreign Currency Holdings		42.2
241.1	Cash Deposits		211.6
-	Other Investments assets		-
15.4	Outstanding dividend entitlement and recoverable with-holding tax		4.9
9,826.3	**Investment Assets**		**10,095.2**
	Investment Liabilities (at Market Value)	**P16**	
(0.1)	Other Investments liabilities		(3.3)
(0.1)	**Investment Liabilities**		**(3.3)**
9,826.2	**Net Investment Assets**		**10,091.9**
73.2	**Current Assets**	**P19**	**71.1**
(13.1)	**Current Liabilities**	**P20**	**(18.6)**
9,886.3	**Net Assets of the Fund at the end of the year**		**10,144.4**

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

The notes form part of these financial statements.

Notes to the Pension Fund Statements

Note P1 - General

The West Midlands Pension Fund is administered by Wolverhampton City Council on behalf of all local authorities in the West Midlands and other employers who have members in the Fund.

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

The fund is administered under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulations. This includes:

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

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

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

(iv) The Local Government Pension Scheme Regulations 2013

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contribution) Regulations 2007 and range from 5.5% and 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Employer contribution rates during 2013/14 ranged from 2.7% to 27.8% of pensionable pay.

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

Note P2 - Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at the year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note P5 of these accounts.

Note P3 - Statement of Accounting Policies

Note P3A - Inclusion of Income and Expenditure

1. Membership of the Fund

Membership of the Fund is available for all local government employees including non-teaching staff of schools and further and higher education corporations in the West Midlands Region, together with employees of admitted bodies.

2. Fund Account

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

3. Contribution Income

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

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

4. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who had either joined or left the scheme as at 31 March 2014, calculated in accordance with the Local Government Pension Scheme Regulations (see Notes P8 and P11). They are accounted for when trustees of the receiving scheme have agreed to accept the transfer.

5. Investment Income

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

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

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

Property-related income - consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as in integra part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

6. Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2014 relating to the financial year 2013/14.

7. Foreign Currency Transactions

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2014.

Note P3B - Valuation of Investments

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

1. Quoted Securities

Securities have been valued at the bid-market price ruling on 31 March 2014 where a quotation was available on a recognised stock exchange or unlisted securities market.

2. Unquoted Securities

The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. A discount may be applied by the fund manager where trading restrictions apply to such securities. Where the first investor report has not been received from the fund manager the security is valued at cost.

3. Pooled Investment Vehicles

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

4. Freehold and Leasehold Properties

These have been valued at their open market value. Property is valued by the Fund's Valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, Chartered Surveyors as at 31 March 2014. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. The valuation undertaken at 31 March 2014 was therefore one third full valuation, and the remaining two thirds desktop valuations. Agricultural properties were valued by Savills Plc, Agricultural Valuers at the same date.

5. Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraphs P3B1 to P3B2 above and translated at exchange rates ruling at 31 March 2014.

6. Movement in the net market value of investments

Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

Note P3C - Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Note P3D - Financial Liabilities

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

Note P3E - Investment and Administration Expenses

All investment management expenses are accounted for on an accruals basis.

External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody, and as such will fluctuate as the valuations change.

In addition, performance related fees are negotiated with a number of managers and performance related fees totalled £1.3 million in 2013/14 and £2.2 million in 2012/13.

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

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

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

Note P3F - Membership

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

31 March 2013 Number (000)		31 March 2014 Number (000)
97.3	Active Members	99.7
77.5	Pensioner Members	80.6
86.5	Deferred Members	90.0

A detailed list of Member bodies is available at Note P25

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 2014 was £1,240.5 million (£1,231.9 million at 31 March 2013).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note P5. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note P4A - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

Actuarial present value of promised retirement benefits

Uncertainties

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

Effect if actual results differ from assumptions

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

Change in assumptions – year ended 31st March 2014	Approx % increase in liabilities	Approx monetary value £m
0.5% p.a. decrease in discount rate	10%	1,449.0
1 year increase in member life expectancy	2%	318.0
0.5% p.a. increase in salary increase rate	2%	315.0
0.5% p.a. increase in pensions increase rate*	9%	1,375.0

Private Equity

Uncertainties

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

Effect if actual results differ from assumptions

The total private equity investments in the financial statements are £1,240.5 million. There is a risk that this investment may be under-or overstated in the accounts.

Given a tolerance of say +/-5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/-£62.0 million.

Hedge Funds

Uncertainties

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

Effect if actual results differ from assumptions

The total hedge funds value in the financial statements is £217.5 million. There is a risk that these investments may be under-or overstated in the accounts. Given a tolerance of say +/- 5% around the net asset values on which the valuation is based, this would equate to a tolerance of +/- £10.9 million.

Note P5 - Actuarial Valuation of the Fund

A full actuarial valuation of the Fund was made as at 31 March 2013 by the Fund's Actuary, P Middleman of Mercer Human Resource Consulting Limited. The Actuary has determined the contribution rates with effect from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £9,886.0 million represented 70% of the Funding Target of £14,091.0 million at the valuation date. The valuation also showed that a common rate of contribution of 13.3% 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. It allows for the new LGPS benefit structure effective from 1 April 2014.

Adopting the same method and assumptions as used for calculating the funding target, the deficit could be eliminated by an average additional contribution rate of 10.3% of pensionable pay for 22 years.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report dated 31 March 2014. 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. For certain employers, in accordance with the FSS, an increased allowance has been made for assumed investment returns on existing assets and future contributions, for the duration of the employer's deficit recovery period.

As a result of the valuation, a revised Rates and Adjustments certificate was prepared for the three years commencing 1 April 2014. For comparison purposes, the figures for the two preceding years are also shown. The rates payable by the Unitary Authorities were certified as follows:

Future Service Rate (% of pay) plus lump sum (£)	2012/13	2013/14	2014/15	2015/16	2016/17
Birmingham City Council	12.1% plus £27,800,000	12.1% plus £29,100,000	12.3% plus £40,113,600	12.9% plus £41,870,400	13.4% plus £43,724,800
Coventry City Council	12.1% plus £6,600,000	12.1% plus £6,900,000	12.2% plus £9,467,000	12.7% plus £12,395,000	13.1% plus £15,518,000
Dudley MBC	11.8% plus £5,700,000	11.8% plus £6,000,000	12.1% plus £7,418,000	12.7% plus £9,174,000	13.2% plus £10,931,000
Sandwell MBC	11.7% plus £7,900,000	11.7% plus £8,300,000	13.1% plus £11,614,400	13.1% plus £15,323,200	13.1% plus £19,227,200
Solihull MBC	11.7% plus £4,300,000	11.7% plus £4,500,000	12.3% plus £17,217,000	12.9%	13.5%
Walsall MBC	11.7% plus £8,000,000	11.7% plus £8,400,000	13.2% plus £14,250,000	13.2% plus £14,835,000	13.2% plus £15,518,000
Wolverhampton City Council	12.2% plus £7,400,000	12.2% plus £7,800,000	12.6% plus £9,000,000	13.1% plus £9,900,000	13.5% plus £10,900,000

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:	4.6% per annum	5.6% per annum
Rate of pay increases:	4.35% per annum*	4.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3/5 year period depending on the individual employer.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	4.15% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2013 was estimated as £15,611.0 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by £1,249.0 million. Adding interest over the year increases the liabilities by £656.0 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another £63.0 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual versus expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of £401.0 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £14,680.0 million.

Note P6 - Taxation

1. Value Added Tax

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

2. Taxation of Overseas Investment Income

The Fund receives interest on its overseas bonds gross, but a variety of arrangements apply for the taxation of dividends on overseas equities in the various markets. Where relief is available it may be either in full at source (USA, Belgium, Australia, Finland and Norway), or partial relief by claim (Austria, Denmark, France, Germany, Netherlands, Switzerland and Spain).

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

Note P7 - Contributions Receivable

Contributions receivable are analysed below:-

2012/13 £m		2013/14 £m
	From Employers	
294.8	Contributions	301.4
0.5	Augmented Membership	0.3
8.3	Additional Cost of Early Retirement	8.8
303.6		**310.5**
	From Employees	
106.4	Basic Contributions	107.8
0.9	Additional Contributions	1.0
107.3		**108.8**
410.9	**Total Contributions**	**419.3**

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

One admitted body, Black Business in Birmingham, terminated their agreement in December 2008 and is now in administration with an outstanding liability identified by the actuary of £128,200.

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

2012/13 £m		2013/14 £m
30.8	Administering Authority	32.9
361.4	Scheduled Employers	367.8
18.7	Admitted Employers	18.6
410.9	**Total**	**419.3**

Note P8 – Transfers In

2012/13 £m		2013/14 £m
22.6	Individual transfers in from other schemes	11.3

Note P9 – Other Income

2012/13 £m		2013/14 £m
	Benefits Recharged to Employers	
9.1	Compensatory Added Years	9.0
7.1	Pensions Increases	7.2
-	Magistrates Courts Committee	-
16.2	**Total**	**16.2**

Note P10 – Benefits Payable

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

2012/13 £m		2013/14 £m
	Pensions	
328.8	Retirement Pensions	346.0
25.7	Widows' Pensions	26.5
1.0	Children's' Pensions	0.9
3.1	Widowers' Pensions	3.5
0.1	Ex-Spouse	0.1
0.1	Equivalent Pension Benefits	0.1
-		-

-		-
358.8	**Total Pensions**	**377.1**
	Lump Sum Benefits	
74.6	Retiring Allowances	83.5
11.7	Death Grants	11.8
86.3	**Total Lump Sum Benefits**	**95.3**
445.1	**Total Benefits Payable**	**472.4**

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

2012/13 £m		2013/14 £m
38.1	Administering Authority	40.8
379.7	Scheduled Employers	400.8
27.3	Admitted Employers	30.8
445.1	**Total**	**472.4**

Note P11 – Payments To and On Account of Leavers

2012/13 £m		2013/14 £m
12.8	Individual transfers out to other schemes	20.2
-	Refunds of Contributions	-
-	State Scheme Premiums	-
3.0	Bulk Transfer Pension Increases	2.8
15.8	**Total**	**23.0**

Note P12 - Investment and Administration Expenses

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

2012/13 £m		2013/14 £m
	Administration	
4.8	Pensions Administration	4.2
0.5	Actuarial fees	0.7
-	Audit fees	0.1
5.3	**Total Administration**	**5.0**
	Investments	
8.8	External management of investments	8.5
2.1	In-house management of investments	2.1
0.1	Property and legal fees	0.2
0.3	Safe Custody Expenses	0.4
11.3	**Total Investments**	**11.2**

Performance related fees are negotiated with a number of managers. Included in external management of investments are performance related fees of £1.3 million in 2013/14 and £2.2 million in 2012/13.

Note P13- Senior Officers' Remuneration

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

Post Title / Name		Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Termination Benefits £	Employers' Pension Contribution £	West Midlands Pension Fund Responsibilities [1] £	TOTAL REMUNERATION £
Senior Officers with a salary of less than £150,000 per year								
Director of Pensions	**2013/14**	**122,850**	**-**	**-**	**-**	**23,464**	**-**	**146,314**
	2012/13	120,831	-	6,627	-	23,090	-	150,548
Assistant Director Investments [2]	**2013/14**	**50,897**	**-**	**575**	**-**	**9,721**	**-**	**61,193**
	2012/13	-	-	-	-	-	-	-

Note 1: The costs of West Midlands Pension Fund responsibilities are funded by the West Midlands Pension Fund and not by Wolverhampton City Council.

Note 2: The post of Assistant Director Investments (within the West Midlands Pension Fund) was created on 27 August 2013 with an annual salary of £85,287.

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

	2013/14		
Remuneration Band	**Pension Fund**	**Total Number of Employees In Band**	**Employees receiving termination packages (included in total)**
£145,000 - £149,999	-	-	-
£140,000 - £144,999	-	-	-
£135,000 - £139,999	-	-	-
£130,000 - £134,999	-	-	-
£125,000 - £129,999	-	-	-
£120,000 - £124,999	-	-	-
£115,000 - £119,999	-	-	-
£110,000 - £114,999	-	-	-
£100,000 - £104,999	-	-	-
£105,000 - £109,999	-	-	-
£95,000 - £99,999	-	-	-
£90,000 - £94,999	-	-	-
£85,000 - £89,999	-	-	-
£80,000 - £84,999	-	-	-
£75,000 - £79,999	-	-	-
£70,000 - £74,999	-	-	-
£65,000 - £69,999	-	-	-
£60,000 - £64,999	1	1	1
£55,000 - £59,999	1	1	-
£50,000 - £54,999	2	2	2
Total	**4**	**4**	**3**

Page 175

	2012/13		
Remuneration Band	Pension Fund	Total Number of Employees In Band	Employees receiving termination packages (included in total)
£145,000 - £149,999	-	-	-
£140,000 - £144,999	-	-	-
£135,000 - £139,999	-	-	-
£130,000 - £134,999	-	-	-
£125,000 - £129,999	-	-	-
£120,000 - £124,999	1	1	1
£115,000 - £119,999	-	-	-
£110,000 - £114,999	-	-	-
£100,000 - £104,999	-	-	-
£105,000 - £109,999	-	-	-
£95,000 - £99,999	-	-	-
£90,000 - £94,999	-	-	-
£85,000 - £89,999	-	-	-
£80,000 - £84,999	1	1	1
£75,000 - £79,999	-	-	-
£70,000 - £74,999	-	-	-
£65,000 - £69,999	-	-	-
£60,000 - £64,999	-	-	-
£55,000 - £59,999	3	3	-
£50,000 - £54,999	1	1	-
Total	**6**	**6**	**2**

Note P14- Exit Packages

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

2012/13 Compulsory Number	2012/13 Compulsory £m	2012/13 Voluntary Number	2012/13 Voluntary £m	2012/13 Total Number	2012/13 Total £m	Value of Individual Package	2013/14 Compulsory Number	2013/14 Compulsory £m	2013/14 Voluntary Number	2013/14 Voluntary £m	2013/14 Total Number	2013/14 Total £m
-	-	-	-	-	-	£150,001 to £200,000	-	-	-	-	-	-
-	-	-	-	-	-	£100,001 to £150,000	-	-	-	-	-	-
-	-	-	-	-	-	£80,001 to £100,000	-	-	-	-	-	-
1	0.08	-	-	1	0.08	£60,001 to £80,000	-	-	-	-	-	-
-	-	-	-	-	-	£40,001 to £60,000	-	-	1	0.04	1	0.04
-	-	-	-	-	-	£20,001 to £40,000	1	0.02	2	0.05	3	0.07
-	-	-	-	-	-	Less than £20,000	1	0.02	3	0.04	4	0.06
1	**0.08**	**-**	**-**	**1**	**0.08**	**Total**	**2**	**0.04**	**6**	**0.13**	**8**	**0.17**

Note P15 - Investment Income

Investment income is analysed below:-

2012/13 £m		2013/14 £m
	Dividends and Interest	
	Fixed Interest Securities	
8.5	UK Private Sector – Quoted	8.8
	Equities	
33.2	UK	31.9
43.6	Overseas	43.0
	Pooled Investment Vehicles	
22.8	UK	19.8
-	UK - Re-invested Income, prior years	-
1.8	Overseas Equities	1.9
0.1	Private Equity	-
0.9	Interest on Cash Deposits	1.3
0.9	Stock lending	0.6
-	UK Tax, Irrecoverable	(0.1)
(1.9)	Overseas Taxation	(1.4)
109.9	**Total Dividends and Interest**	**105.8**
35.7	Property Management Income	37.4
(8.8)	Property Management Expenses	(8.4)
26.9	**Total Property Management**	**29.0**
136.8	**Total Investment Income**	**134.8**

Stocklending

The stock lending programme provides for direct equity investments to be lent. At the year end the value of quoted equities on loan was £171.4M (2013: £43.9M) in exchange for which the custodian held collateral worth £184.6M (2013: £50.5M). Collateral consists of acceptable securities and government debt.

Note P16 - Net Investment Assets

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

Segregated accounts are held separately from the main account by the global custodian and contain assets managed by some of the Fund's external managers.

31 March 2013 £m		31 March 2014 £m
	Fixed Interest Securities	
173.9	UK Companies – Segregated (external)	171.3
173.9		**171.3**
	UK Equities	
943.5	Quoted	971.3
943.5		**971.3**
	Overseas Equities	
1,713.4	Quoted	1,763.9
359.1	Quoted – Segregated (external)	1,392.0
2,072.5		**3155.9**
	Pooled Investment Vehicles	
	Managed Funds	
196.4	UK Quoted, Fixed Interest	192.5
646.4	Other Fixed Interest	600.8
963.2	UK Quoted, Index Linked	948.6
858.8	Overseas Equities	259.7
255.5	UK Unquoted Equities	269.6
1,509.7	Overseas Unquoted Equities	1,453.9
593.0	UK Absolute Returns	553.0
105.9	Overseas Absolute Returns	89.6
37.6	UK Property	47.0
225.7	Foreign Property	211.3
	Unit Trusts	
26.6	UK Quoted Equities	66.3
303.6	Overseas Equities	209.4
7.0	Overseas Property	6.5
5,729.4		**4908.2**

31 March 2013 £m		31 March 2014 £m
	Property	
532.7	UK Freehold	586.8
34.9	UK Leasehold*	43.0
567.6		**629.8**
	Foreign Currency Holdings	
29.6	United States Dollars	21.3
34.0	Euro	11.3
1.5	Canadian Dollars	1.0
1.1	Danish Kroner	0.4
0.4	Hong Kong Dollars	0.6
3.2	Swedish Kroner	0.5
4.3	Swiss Francs	1.4
2.0	Japanese Yen	1.4
1.2	Norwegian Kroner	0.5
-	Malaysian Ringits	-
-	Singapore Dollars	0.6
1.1	Australian Dollars	1.1
-	New Zealand Dollars	0.1
1.2	Hungarian Florints	0.5
0.9	Polish Zloty	0.7
-	Israeli Shekels	-
1.2	Turkish Lira	0.3
1.2	Czech Koruna	0.5
-	Korean Won	-
82.9		**42.2**
	Cash Deposits	

31 March 2013 £m		31 March 2014 £m
241.1	UK	211.6
	Other Investments	
(0.1)	Broker Balances	(3.3)
15.4	Outstanding Dividend Entitlement and Recoverable with-holding Tax	4.9
9,826.2	**Total Net Investment Assets**	**10,091.9**

* All leasehold properties are held on long leases (more than 15 years)

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

31st March 2013			31st March 2014	
Market Value £M	% of total Market Value %		Market Value £M	% of total Market Value %
		Security		
664.0	6.8	Legal & General - All Stocks Index-Linked Gilts Fund	639.1	6.3

The proportion of the market value of investment assets managed in-house and by external managers at the year-end is set out below.

31 March 2013			31 March 2014	
Market Value £m	% of total Market Value %		Market Value £m	% of total Market Value %
3497.3	35.6	In-house	3,615.5	35.7
26.6	0.3	Managers: UK Quoted	33.2	0.3
131.1	1.3	Managers: US Quoted	146.5	1.5
193.3	2.0	Managers: European Quoted	236.8	2.3
37.6	0.4	Managers: Japanese Quoted	36.2	0.4
107.4	1.1	Managers: Pacific Basin	69.5	0.7
609.3	6.2	Managers: Emerging Markets	845.9	8.4
493.9	5.0	Managers: Global Equities	526.1	5.2
1,979.9	20.2	Managers: Fixed Interest	1,913.2	19.0
270.3	2.8	Managers: Indirect Property	298.0	3.0
-	-	Managers: Emerging Market Debt	189.6	1.9
206.8	2.1	Managers: Commodities	293.4	2.9
326.5	3.3	Managers: Infrastructure Funds	642.6	6.4
698.9	7.1	Managers: Absolute Return	1,240.5	12.3
1,231.9	12.6	Managers: Private Equity	-	-
9,810.8	**100.0**		**10,087.0**	**100.0**
15.4		Outstanding Dividend Entitlement and Recoverable with-holding Tax	4.9	
9,826.2		**Total Investment Assets**	**10,091.9**	

Note P17 – Investment Market Value Movements Analysis

The change in the value of investments during 2013/14 is set out below:-

	Value at 1 April 2013 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31 March 2014 £m
Fixed Interest Securities	173.9	-	-	(2.6)	171.3
UK Equities	943.5	29.0	(25.9)	24.7	971.3
Overseas Equities	2,072.5	1,099.5	(76.8)	60.7	3,155.9
Pooled Investment Vehicles	5,729.4	1,029.2	(1,809.8)	(40.6)	4,908.2
Property	567.6	21.5	(2.5)	43.2	629.8
	9,486.9	**2,179.2**	**(1,915.0)**	**85.4**	**9,836.5**
Broker Balances	(0.1)				(3.3)
Outstanding dividend entitlement and recoverable With-holding tax	15.4				4.9
Foreign Currency	82.9				42.2
Cash Deposits	241.1				211.6
Total Investments	**9,826.2**				**10,091.9**

Page 184

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £103.0 million which represents profit realised on sale of the Fund's assets.

Purchases also include transfers in of investments, take-over of shares etc. and invested income. Sales proceeds include all receipts from sales of investments, transfers out of investments, take-over proceeds etc. and reductions in cash deposits including profits or losses realised on the sale.

There were 125 late payments amounting to £2.3 million of contributions during the year which constituted employer-related investments until the amounts were received. Other than this, there were no employer-related investments.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs during the year amounted to £0.2 million (2012/13: £0.4 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 scheme.

31 March 2013 £m		31 March 2014 £m
0.1	Equities - UK Quoted	0.1
0.3	Equities - Overseas Quoted	0.1
0.4	**Total**	**0.2**

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 2012/13 is set out below:-

	Value at 31 March 2012 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31 March 2013 £m
Fixed Interest Securities	158.8	-	-	15.1	173.9
UK Equities	840.5	30.2	(22.8)	95.6	943.5
Overseas Equities	1,779.3	186.8	(154.5)	260.9	2,072.5
Pooled Investment Vehicles	5,213.3	817.6	(800.9)	499.4	5,729.4
Property	615.4	13.4	(36.2)	(25.0)	567.6
	8,607.3	**1,048.0**	**(1,014.4)**	**846.0**	**9,486.9**
Broker Balances	0.2				(0.1)
Outstanding dividend entitlement and recoverable With-holding tax	11.1				15.4
Foreign Currency	43.7				82.9
Cash Deposits	139.3				241.1
Total Investments	**8,801.6**				**9,826.2**

The change in market value of investments comprises increases and decreases in the market value of investments held at any time during the year. The profits and losses on the sale of investments shown in the Fund Account include an additional £97.7 million which represents profit realised on sale of the Fund's assets.

Net gains and losses on financial instruments

31 March 2013 £m		31 March 2014 £m
	Financial Assets	
846.0	Fair value through profit and loss	85.4
846.0	**Total**	**85.4**

Fair value of financial instruments and liabilities

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

31 March 2013 Carrying Value £m	31 March 2013 Fair Value £m		31 March 2014 Carrying Value £m	31 March 2014 Fair Value £m
		Financial Assets		
9,486.9	9,486.9	Fair value through profit and loss	9,836.5	9,836.5
339.3	339.3	Loans and receivables	255.4	255.4
9,826.2	**9,826.2**	**Total**	**10,091.9**	**10,091.9**

Page 187

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed income securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which West Midlands Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. The valuation of unquoted securities is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted Market Price Level 1 £m	Using Observable Inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial Assets				
Financial Assets at fair value through profit and loss	5,941.9	1,528.6	2,366.0	9,836.5
Loans and receivables	255.4	-	-	255.4
Total Financial assets	**6,197.3**	**1,528.6**	**2,366.0**	**10,091.9**

Values at 31 March 2013	Quoted Market Price Level 1 £M	Using Observable Inputs Level 2 £M	With significant unobservable inputs Level 3 £M	Total £M
Financial Assets and Liabilities				
Financial Assets at fair value through profit and loss	5,538.4	1,484.3	2,464.2	9,486.9
Loans and receivables	339.3	-	-	339.3
Total Financial assets	**5,877.7**	**1,484.3**	**2,464.2**	**9,826.2**

Note P18 – Investment Capital Commitments

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

31 March 2013 £m		31 March 2014 £m
808.7	Non-Equities	920.8
139.0	Property	146.5
947.7	**Total**	1,067.3

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

Note P19- Current Assets

31 March 2013 £m		31 March 2014 £m
	Receivables and Prepayments	
	Contributions Receivable	
21.6	- Employers	-
8.4	- Employees	-
42.5	Wolverhampton City Council	-
-	Other Receivables	71.2
72.5	**Total Receivables and Prepayments**	**71.2**
0.7	Cash	(0.1)
73.2	**Total Current Assets**	**71.1**

Note:- Following the bulk transfer of Magistrates Courts Committee staff to the Civil Service Pension Scheme on 31 March 2005, it has now been calculated by Mercer Limited that the Fund is due to receive a total of £27.7 million. This is to be paid in 10 equal and annual instalments commencing on 15 April 2011 and finishing on 15 April 2020 together with interest payments resulting in annual income of £3.3 million. The balance due included in Other Receivables is £19.4 million (2012/13: £19.4 million). During 2013/14 no payments were received and deducted from the receivable as the payment for 2013/14 was made early (in March 2013).

31 March 2013 £m		31 March 2014 £m
	Analysis of Receivables	
-	Central Government Bodies	
51.5	Other Local Authorities	21.5
-	Public Corporations	-
21.0	Other Entities and Individuals	49.6
72.5	**Total**	**71.1**

Note P20- Current Liabilities

31 March 2013 £m		31 March 2014 £m
	Payables and Receipts In Advance	
(4.1)	Pensions and Lump Sum Benefits	(4.3)
(8.9)	Other Payables	(14.3)
(0.1)	Trustee Account	-
-	Bulk Transfer Pension increases	-
(13.1)	**Total**	**(18.6)**

31 March 2013 £m		31 March 2014 £m
	Analysis of Payables	
(3.2)	Central Government Bodies	(8.2)
(0.1)	Other Local Authorities	(0.1)
(9.8)	Other Entities and Individuals	(10.3)
(13.1)	**Total**	**(18.6)**

Note P21 - Additional Voluntary Contributions

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

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

31 March 2013			31 March 2014	
Equitable Life £m	Prudential £m		Equitable Life £m	Prudential £m
2.9	**27.5**	**Opening Value of the Fund**	**2.7**	**30.2**
-	7.3	Income	-	7.3
(0.4)	(5.0)	Expenditure	(0.4)	(7.8)
0.2	0.4	Change in Market Value	0.1	6.1
2.7	**30.2**	**Closing Value of the Fund**	**2.4**	**35.8**

Note P22 - Post Year End Transactions

The responsibility for the pension administration of the Staffordshire and West Midlands Probation Trust will transfer to Greater Manchester Pension Fund on 1 June 2014. The draft Local Government Pension Scheme (Offender Management) Regulations 2014 set out the basis of the bulk transfer calculation, together with specified payment dates. The valuation of the bulk transfer and the associated payment will be determined in 2014/15 between the Actuaries of West Midlands Pension Fund and Greater Manchester Pension Fund. No adjustment is required to be made in the 2013/14 financial statements.

The Local Government Pension Scheme (LGPS) will change as at 1 April 2014. The changes are effected under the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. This sets out the basis for the future structure of pension payable through the LGPS from 2014/15 onwards and details the protections in place for existing pensions built up prior to 1 April 2014. The main change is that pensions accrued from 1 April 2014 will be based upon a career average revalued earnings (CARE) scheme, whereas previously this was based upon a final salary basis. The effect of the changes will be taken into account in actuarial valuations and will impact upon employers' contribution rates from 2014/15. There is no financial effect on the financial statements for 2013/14.

Note P23 - The Nature and Extent of Risks Arising From Financial Instruments

Risk Management

The Fund's activities expose it to a variety of financial risks including:

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

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

Liquidity Risk - the possibility that the Authority might not have funds available to meet its commitments to make payments.

Market Risk - possibility that financial loss might arise as a result of stock market movements. Currency risk, other price risk and interest rate risk are types of market risk.

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies covering specific areas relating to the Pension Fund are as follows:

Investment Risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by investing with regard to liabilities through the triennial actuarial valuation followed by an appropriate asset allocation. During the year, the Fund targeted a 90% 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 10% being allocated to stabilising assets, such as UK Government bonds or gilts, both index linked and conventional.

Risks in return seeking assets include market risk (the greatest risk), issuer risk and volatility, which are partly mitigated by diversification across asset classes, global markets and investments funds. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of return seeking assets would increase the costs of funding. Stabilising assets backed by the UK Government are considered low risk. However, corporate bonds carry some additional issuer risk.

Counterparty Risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund's strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

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

Credit Risk

The Fund's deposits with financial institutions as at 31 March 2014 totalled £211.6 million in respect of temporary loans and treasury management instruments. The Fund's surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by Fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Proposed counterparties are assessed using an amalgamation of credit ratings and market research with the resulting 'score' determining the suitability and individual limit in each case. Due diligence is conducted on potential money market funds with criteria such as AAA rating, same day access and minimum assets under management being prerequisite. A credit rating sensitivity analysis as at 31 March 2014 is shown below:

Credit Rating Sensitivity Analysis

Summary	Rating	Balances as at 31 March 2013 £m	Balances as at 31 March 2014 £m
Money Market Funds			
AIM STIC Global Sterling Portfolio	AAA	79.4	28.3
HSBC Sterling Liquidity Fund	AAA	81.7	43.3
Northern Trust Global Sterling Fund	AAA	1.2	-
Short-term Deposits			
Nationwide Building Society	A	-	25.0
Banco Santander	A	8.0	23.5
Lloyds Bank PLC	A	-	13.0
Coventry Building Society	A	5.0	12.0
Skipton Building Society	BBB-	-	8.5
Principality Building Society	BBB+	-	8.0
Newcastle Building Society		5.0	-
Barclays		9.0	-
Bank Deposit Accounts			
Nat West Liquidity Select	A	50.0	50.0
Total		**239.3**	**211.6**

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 cash flow management procedures and the liquidity of certain asset types held, there is no significant risk that the fund will be unable to raise cash in order to meet its liabilities. The Fund actually uses this liquidity risk to its benefit, taking advantage of the illiquidity premium found in investments such as private equity.

Foreign Exchange Risk

The Fund's exposure to foreign exchange risk is managed through the diversification of portfolios across sectors, countries and geographic regions, along with continuous monitoring and management of holdings. In addition, the fund's currency exposure is managed in line with the daily cash management policy.

Securities Lending

As at 31 March 2014, £171.4 million of stock was on loan to an agreed list of approved borrowers through the Fund's custodian in its capacity as agent lender. The loans were covered by non-cash collateral in the form of equities, gilts, DBVs and G10 sovereign debt, totalling £184.6 million, giving a margin of 7.71%.

Collateral is marked to market, adjusted daily and held by a tri-party agent on behalf of the Fund. Income from stock lending amounted to £0.6 million during the year and is detailed in Note P15 to the accounts. The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. There is, however, an obligation to return collateral to the borrowers; therefore, its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk

The Fund's prudent approach to the collective risks listed above and through best practice in corporate governance, ensures that reputational risk is kept to a minimum.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk, which arises from investments held by the fund for which the future price is uncertain. The Fund mitigates price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Price Risk

Price Risk				
Asset Type	Value as at 31 March 2014 £m	% Change	Value on Increase £m	Value on Decrease £m
UK equities	1,004.3	16.6%	1,171.0	837.6
Global equities (ex UK)	3,625.0	19.4%	4,328.3	2,921.8
Property	927.8	14.7%	1,064.2	791.4
Corporate bonds (short term)	93.7	7.2%	100.4	87.0
Corporate bonds (medium term)*	620.4	9.6%	680.0	560.8
Corporate bonds (long term)	168.6	18.0%	198.9	138.3
UK fixed gilts (short term)	104.0	3.1%	107.2	100.8
UK fixed gilts (medium term)**	117.3	6.9%	125.4	109.2
UK fixed gilts (long term)	45.7	12.3%	51.3	40.1
UK index linked gilts (short term)	70.9	2.3%	72.5	69.3
UK index linked gilts (medium term)	201.3	5.0%	211.4	191.2
UK index linked gilts (long term)	366.8	8.5%	398.0	335.6

Commodities	189.6	13.7%	215.6	163.6
Cash	160.7	0.6%	161.7	159.7
Private Equity	1,240.5	28.4%	1,592.8	888.2
Infrastructure	293.4	15.9%	340.1	246.7
High Yield Debt***	214.5	13.2%	242.8	186.2
Absolute Return/Diversified Growth	642.5	11.8%	718.3	566.7
Total Assets	**10,087.0**		**11,779.8**	**8,394.2**

*includes exposure Emerging Market Debt (£263.7 million), Loans (£90.0 million) and the Newton Dynamic Bond Fund (£48.1 million)
**includes exposure to Overseas Bonds (£74.5 million)
***includes Mezzanine debt and Convertibles

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 2014:

Page 199

Currency Risk (by asset class)

Asset Type	Value as at 31 March 2014 £	% Change	Value on Increase £	Value on Decrease £
Overseas Equities	3,625.0	13.0%	4,096.3	3,153.8
Private Equity	1,055.7	13.0%	1,192.9	918.5
Fixed Interest	263.7	13.0%	298.0	229.4
Alternatives	574.5	13.0%	649.2	499.8
Property	217.8	13.0%	246.1	189.5
Liquid Assets	42.2	13.0%	47.7	36.7
Total	**5,778.9**	**13.0%**	**6,530.2**	**5,027.6**

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Interest rate risk - sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The fund's consulting actuary has advised that the assumed interest rate volatility is 100 basis points per annum.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/-100 BPS change in interest rates:

As at 31 March 2013 £m	Asset Type	As at 31 March 2014 £m
239.3	Cash & Cash Equivalents	211.6
84.7	Cash Balances	52.1
1,034.3	Fixed Interest Securities	906.0
1,358.3	**Total**	**1,169.7**

Asset Type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£m	£m	£m
Cash & Cash Equivalents	211.6	2.1	(2.1)
Cash Balances	52.1	0.5	(0.5)
Fixed Interest Securities	906.0	9.1	(9.1)
Total change in assets available	**1,169.7**	**11.7**	**(11.7)**

Note P24- 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 £50	10	183.50
£50 - £100	1	69.30
£100 - £500	1	128.94
Over £500	0	-
Total	**12**	**381.74**

*Additions Analysis refers to income collected after it has been written off.

Write off Analysis		
Individual Value	**Number**	**Total £**
Less than £50	7	165.58
£50 - £100	28	2,061.82
£100 - £500	47	11,164.70
Over £500	12	16,704.97
Total	**94**	**30,097.07**

Note P25 - Related Parties

The pensions administration function and the in-house management of investments are performed by Wolverhampton City Council and the costs shown in the table above are recharged to the Pension Fund each year on an estimated basis with an end of year adjustment for actual costs shown as receivable or payable in the accounts. This is a related party transaction as Wolverhampton City Council is also a member body of the Fund.

Key management personnel who are employees of the administering authority and members of the Fund are disclosed in the administering authority's statement of accounts along with details of remuneration and pensions contributions.

There is one member of the pension fund committee who is in receipt of pension benefits from the West Midlands Pension Fund (Councillor Turner). There are six committee members who are active members of the Pension Fund (Councillors S.Eling, M.Evans, S.Evans, L.McGregor, T.Singh and V.Silvester). Each member of the Pension Fund Committee is required to declare their interests at each meeting.

Scheduled Bodies		
District Councils		
Birmingham City Council	Coventry City Council	Dudley Metropolitan Borough Council
Sandwell Metropolitan Borough Council	Solihull Metropolitan Borough Council	Walsall Metropolitan Borough Council
Wolverhampton City Council		
Major Employers		
Centro	Staffordshire & West Midlands Probation Trust	West Midlands Fire & Civil Defence Authority
Police and Crime Commissioner West Midlands		
Universities		
Birmingham City University	Coventry University	University of Wolverhampton (The)
Colleges of Further Education and Higher Education		
Birmingham Metropolitan College	Bournville College of Further Education	Cadbury Sixth Form College

Scheduled Bodies		
City College, Coventry	City of Wolverhampton College	Dudley College of Technology
Halesowen College	Henley College	Hereward College
Joseph Chamberlain College	King Edward VI College	Sandwell College
Solihull College	Solihull Sixth Form College	South and City College Birmingham
Stourbridge College (merged with Birmingham Metropolitan College 1 June 2014)	University College Birmingham	Walsall College
Other Bodies		
Ace Academy - Education Central MAT	Acocks Green Primary Academy	Alderbrook School
Aldersley - Academies Trust	Anand Free School	Aldridge School - A Science College
Arden Academy Trust	ARK Academies	ARK Kings Academy
ARK Rose Primary Academy	ARK Tindal Primary Academy	Arthur Terry Learning Partnership
Aston Manor Academy	Aston University Engineering Academy	Balsall Common Primary Academy
Balsall Parish Council	Barr Beacon School Trust	Bartley Green School
Baverstock Academy - The Leap Academy Trust	Bentley Heath Church of England Primary School	Billesley Primary - Academy - The Elliot Foundation Academies Trust
Birchills Academy - St Chads Academies Trust	Birmingham Museums Limited	Bishop Milner Catholic College - The St John Bosco CAT
Bishop Vesey's Grammar School	Bishop Walsh - John Paul II Multi-Academy	Black Country University Technical College
Blue Coat Church of England Academy Limited (The)	BOA Birmingham Ormiston Academy	Bramford Primary - Griffin Academy Trust
Broadway Academy	Bristnall Hall Academy - The Academy Transformation Trust	Castle Bromwich Parish Council
Caludon Castle School	Central Learning Partnership Trust - Heath Park Academy	Charles Coddy Walker Academy - Erudition Schools Trust
Chelmsley Wood Town Council	Chilwell Croft Academy	Chivenor Academy - Griffin Schools Trust
City Road Academy - Birmingham City University Academy Trust	City of Wolverhampton Academy Trust	Collegiate Academy Trust (The)
Corngreaves Primary - United Learning Academies	Coundon Court	CTC Kingshurst Academy

Page 204

Scheduled Bodies		
Croft Primary Academy - The Elliot Foundation Trust	Deanery Church of England School	Dorrington Academy Trust
E-ACT Heartlands Academy	E-ACT North Birmingham Academy	E-ACT Shenley Academy
E-ACT Willenhall Academy	Earls High School (The)	EBN Free School
Edgar Stammers Academy - Education Central MAT	Education Central Multi Academy Trust	Erdington Hall Primary Academy
Ernesford Grange Academy	Fairfax School	Fairway School - Educational Central MAT
Finham Park School	Fordbridge Parish Council	Four Dwelling Primary Academy - Academies Enterprise Trust
Four Dwellings Academy - Academies Enterprise Trust	George Betts Academy - The Elliot Foundation Academies Trust	George Dixon Academy
The Giffard Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC	Golden Hillock Academy - Park View Educational Trust	Goldsmith Primary Academy - Windsor Academy Trust
Grace Academy	Great Barr Primary School	Greenholm Primary School
Greenwood Academy - Academies Enterprise Trust	Grestone Primary Academy	Hall Green Secondary School
Hamstead Hall Academy Trust	Handsworth Wood Girls' Academy	Harborne Academy
Hawkesley Church Primary Academy	Heart of England School	Hillcrest School and Sixth Form Centre
Hill Farm Academy - Castle Phoenix Trust	High Arcal School Academy Trust (The)	Hockley Heath Academy
Holy Cross - John Paul II Multi-Academy	Holy Trinity C of E Primary Academy (Handsworth)	Holly Hall Academy (The)
Holyhead School	James Brindley School	John Henry Newman Catholic College (The)
Joseph Leckie Academy Trust	Jubilee Academy Mossley - ATT	Jubilee Park Academy Trust
King Edward VI Aston School (Academy)	King Edward VI Camp Hill School for Boys (Academy)	King Edward VI Camp Hill School for Girls (Academy)
King Edward VI Five Ways School (Academy)	King Edward VI Handsworth School (Academy)	King Edward VI Sheldon Heath Academy
Kings Norton Girl's School and Language College	Kings Rise Academy - The Elliot Foundation Academies Trust	Kingshurst Parish Council
Kingswinford School and Science College (The)	Knowle C of E Primary Academy	Langley School
Lea Forest Primary Academy - Academies	Leigh Primary Academy - Leigh Trust	Light Hall School

Scheduled Bodies		
Enterprise Trust		
Lode Heath School	Lordswood Boys School - Lordswood Academies Trust	Lordswood Girls School and Sixth Form Centre - Lordswood Acadamies Trust
Mansfield Green E-ACT Academy	Meriden Parish Council	Merritts Brook E-ACT Primary Academy
Mesty Croft Academy	Moor Green Primary Academy - HTI MAT	Montgomery Primary Academy - Academies Enterprise Trust
Moseley Park School - Central Learning Partnership Trust	Nansen Primary School - Park View Educational Trust	Nechells Primary E-ACT Academy
Ninestiles Academy Trust	Oaklands Primary - Ninestiles Academy Trust	Oasis Community Learning - Foundry Primary
Oasis Community Learning - Hobmoor Primary	Oasis Community Learning - Matthew Boulton	Oasis Community Learning - Short Heath Primary
Oasis Community Learning - Blakenhall Infants	Oasis Community Learning - Blakenhall Junior	Oasis Community Learning - Woodview School
Ocker Hill Academy Trust	Oldbury Academy	Oldknow Academy
Orchards Primary Academy - Education Central MAT (The)	Ormiston Academies Trust	Ormiston Forge Academy
Ormiston George Salter Academy	Ormiston Sandwell Community Academy	Park Hall Academy
Park Hall Infant Academy	Park Hall Junior Academy	Park View Educational Trust
Parkfields Academies Trust	Pegasus Academy - Ninestiles Academy Trust	Percy Shurmer Primary School
Perry Beeches - The Academy	Perry Hall Primary School	Plantsbrook School
President Kennedy School	Queen Mary's High School (Walsall)	Q3 Academy
Queen Mary's Grammar School (Walsall)	Radford Primary Academy	Reaside Academy - Education Central MAT
Reach Free School	Reedswood E-ACT Primary Academy	Redhill School
Rivers Primary Academy - Windsor Academy Trust	Robin Hood Academy	Rookery School
Rough Hay Primary - Elliot Foundation Trust	RSA Academy	Ryder Hayes Academy Trust
Sandwell Academy Trust Limited	Sandwell Leisure Trust	Shelfield Community Academy
Shireland Hall Academy - The Elliot Foundation Academies Trust	Shire Oak Academy Trust	Shirestone Community Academy -The Elliot Foundation Academies Trust
Sidney Stringer Academy Trust	Smestow School - Education Central MAT	Smiths Wood Parish Council
Solihull Community Housing Limited	SS Mary and John's Catholic Primary	St Bartholomew C of E Academy

Scheduled Bodies		
	Academy - Bishop Cleary Catholic MAC	
St Chads Academy - The St John Bosco CAT	St Clements C of E Academy	St Edmund's Catholic Academy - Bishop Cleary Catholic MAC
St Georges Academy C of E Academy	St Georges Academy Newtown	Valuation Tribunal Service (formerly Birmingham Valuation Tribunal)
St Johns C of E Primary School	St Johns and St Peters C of E Academy	St Joseph's - John Paul II Multi-Academy
St Joseph's Academy - The St John Bosco CAT	St Judes Academy - The Wulfrun Academies Trust	St Laurence's Primary Academy - Diocese of Coventry MAT
St Marys C of E Junior & Infants School	St Michael's Catholic Primary Academy and Nursery - Bishop Cleary Catholic MAC	St Michael's C of E Primary School Bartley Green
St Michael's C of E Primary Academy Handsworth	St Michael's Junior and Infants School	St Nicholas' - John Paul II Multi-Academy
St Patrick's Church of England Primary Academy	St Peter's Church of England Academy Trust	St Teresa's Catholic Primary Academy - Bishop Cleary Catholic MAC
Streetly Academy (The)	Stretton Primary Academy - Diocese of Coventry MAT	Sutton Coldfield Grammar School for Girls Academy Trust
Tame Valley Academy - Education Central MAT	The Blue Coat Church of England Academy	Three Spires Academy - RNIB Specialist Learning Trust
Tile Hill Wood School and Language College	Timberley Academy Trust	Timbertree Primary - United Learning Academies
Tiverton Academy - Elliot Foundation Trust	Tudor Grange Academy Solihull Trust	Tudor Grange Primary Academy
Twickenham Primary Academy	Victoria Park Primary Academy	Walsall City Academy Trust Limited
The Mirus Academy – Walsall College Academies Trust	Walsall Studio School - The Vine Trust	Warren Farm Primary School
Washwood Heath Academy	Waverley Studio School	West Walsall E-ACT Academy
Westwood Academy	Whitley Academy	Wilson Stuart School
Windsor High School and Sixth Form	WMG Academy for Young Engineers	Woden Primary - Central Learning Partnership Trust
Wodensborough Academy - Ormiston Academies Trust	Wolverhampton Homes Limited	Woodhouse Primary Academy - Education Central MAT
Wood Green Academy	Woodlands Academy	Woodlands Academy of Learning
Yardleys School	Yarnfield Academy - Ninestiles Academy Trust	

Scheduled Bodies		
Other Bodies With No Active members		
Bickenhill Parish Council	Sandwell Homes Limited	

Admitted Bodies		
With Active Members		
4 Towers TMO Limited	Acivico (Building Consultancy)	Acivico (Design Construction and Facilities Management)
ACUA Limited	Age Concern Birmingham	Age Concern Birmingham (VSOP)
Age Concern Wolverhampton	Aston University - terminated 31 May 2013	BID
Black Country Consortium Limited	Black Country Museum Trust Limited (The)	Black Country Partnership NHS Foundation Trust
Bloomsbury Local Management Organisation Limited	BME United Limited	Broadening Choices for Older People
Brownhills Community Association Limited	Bushbury Hill Estate Management Board Limited	Chuckery Tenant Management Organisation Limited
Coventry and Solihull Waste Disposal Company Limited (The)	Coventry Heritage and Arts Trust - terminated 31 July 2013	Coventry Law Centre Limited
Coventry Sports Trust Limited	CSW Partnership Limited	Delves East Estate Management Limited
Dovecotes TMO	Edith Cadbury Nursery School	Family Care Trust
Friendship Care and Housing Limited	Heart of England Care - terminated 2 June 2013	Home Start Northfield
Home Start Stockland Green/Erdington	Home Start Walsall	Leamore Residents Association Limited
Leisure and Community Partnership Limited - terminated 30 September 2013	Lieutenancy Services (West Midlands) Limited	Life Education Centres West Midlands
Light House Media Centre	Manor Farm Community Association	Marketing Birmingham Limited
Midland Heart Ltd	Millennium Point Trust	Murray Hall Community Trust Limited

Page 208

Admitted Bodies		
Murray Hall Community Trust (Oldbury)	Murray Hall Community Trust (Rowley)	Murray Hall Community Trust (Wednesbury)
Museum of British Road Transport Trust (Coventry) Limited - terminated 31 July 2013	Mytime Active	New Park Village Tenant Management Organisation
Northern Housing Consortium Limited	Optima Community Association	Palfrey Community Association
Penderels Trust Limited (The)	Pool Hayes Community Association	Riverside Housing Association Limited (formerly Riverside Group Limited)
S4E Ltd	Sandwell Arts Trust - terminated 30 November 2013	Sandbank Tenant Management Organisation Limited
Sandwell Community Caring Trust (The)	Sandwell Community Caring Trust (Sandwell Care Homes)	Sandwell Inspired Partnership
Sickle Cell and Thalassaemia Support Project (Wolverhampton)	Solihull Care Limited	Solihull Care Trust
St Columba's Day Care Centre	Steps to Work (Walsall) Ltd	Titan Partnership
University of Warwick	Voyage Care Limited	Walsall Housing Group Limited
WATMOS Community Homes	West Midlands Transport Information Services Limited - terminated 20 April 2013	Whitefriars Housing Group Limited
Wildside Activity Centre	Wolverhampton Grammar School	Wolverhampton Network Consortium - terminated 30 November 2013
Wolverhampton Voluntary Sector Council		
Without Active Members		
Adoption Support	All Saints Haque Centre	Aquarius Action Projects
Asian Welfare Centre	Asian Women's Adhikar Association (AWAAZ)	Belgrade Theatre Trust (Coventry) Limited
Bilston and Ettingshall SureStart	Birmingham and Solihull Connexions Services	Birmingham and Solihull Learning Exchange (The)
Birmingham Heartlands Development Corporation	Black Business in Birmingham	Black Country Connexions
Black Country Museum Development Trust (The)	BXL	Cannon Hill Trust (now Midlands Arts Council)
Cerebral Palsy Midlands	Community Justice National Training Organisation	Coventry Voluntary Service Council

Admitted Bodies		
CV One Limited	Druids Heath TMO	Dudley Zoo Development Trust
East Birmingham Family Service Unit	Heath Town Estate Management Board	Job Change Limited
Metropolitan Authorities Recruitment Agency (METRA)	Moseley and District Churches Housing Association Limited	National Urban Forestry Unit
National Windows (Homes Improvements) Limited	Newman College	Priory Family Centre Cic Limited
Relate	RM Education	Roman Way Estate CIC
Sandwell Regeneration Company Limited	Select Windows (Homes Improvements) Limited	Serco Limited (Stoke)
Smethwick Asra Limited	Solihull Care Trust	Solihull Community Caring Trust
South Birmingham Family Services Unit	Springfield/Horseshoe Housing Management Co-operative Ltd	St Basil's Centre
Sunderland ARC Limited	Target Excel plc (Walsall MBC)	The Chris Laws Day Care Centre for Older People
TSB Bank plc (formerly Birmingham Municipal Bank)	University of Birmingham	University of Warwick
Walsall Enterprise Agency Limited	Walsall Regeneration Company Limited	Wednesbury Action Zone
West Bromwich Afro-Caribbean Resource Centre	West Midlands Councils (formerly West Midlands Leaders Board)	West Midlands (West) Valuation Tribunal
West Midlands Examinations Board (The)	West Midlands Local Authorities Employers' Organisation	Wolverhampton Community Safety Partnership
Wolverhampton Development Corporation Limited	Wolverhampton Family Information Service Limited	Wolverhampton Race Equality Council

Transferee Admission Bodies (Best Value)		
With Active Members		
Action for Children (Smethwick)	Action for Children (West Bromwich)	Agilisys Limited (Rowley/Smethwick)

Transferee Admission Bodies (Best Value)		
Alliance in Partnership - Camp Hill	Alliance in Partnership - President Kennedy	Alliance in Partnership - Stoke Park
Amey LG Limited	Aspen Services Ltd (Gosford Park)	APCOA Parking (UK) Limited - terminated 13 February 2014
Balfour Beatty Living Places (Coventry) (Previously Balfour Beatty Workplace Limited (Coventry))	BAM Construct UK Limited	Bespoke Cleaning Services Limited
British Telecom plc - terminated 31 March 2014	Capita IT Services Limited	Call First Cleaning
Cofely Work Place Limited (formally Balfour Beatty Workplace Limited (Birmingham))	Creative Support Limited	DRB Yew Tree Primary
DRB Contract Cleaning Limited (Wychall Primary School)	Enterprise Managed Services Ltd - Solihull	Enterprise Managed Services (W-ton)
Enterprise Managed Services (Telford/Wrekin)	Elite Cleaning and Environmental Services	European Electronique Ltd (Tile Hill School)
Harrison Catering Services Limited	Housing 21	Initial Catering Services (Rowley)
Initial Catering Services Limited (Smethwick)	Integral UK Limited	Interserve FM Limited (Rowley Campus)
Interserve FM Limited (OCOS/Wodo/Tipton)	KGB Cleaning & Support Services Limited (Bishop Ulathorne)	KGB Cleaning and Support Services Limited (Alderbrook)
KGB Cleaning and Support Services Ltd (Lyndon)	Lawrence Cleaning Limited (Parkfields)	Lawrence Cleaning Limited (St Stephens)
Leisure Living Limited	Lend Lease Construction (EMEA) Limited (Four Dwellings School)	Lend Lease Construction (EMEA) Limited (E-ACT)
Lend Lease Construction (EMEA) Limited (George Dixon)	Lend Lease Construction (EMEA) Limited (Moseley School)	Lend Lease Construction (EMEA) Limited (Park View School)
Lend Lease Construction (EMEA) Limited (Saltley School)	Lend Lease Construction (EMEA) Limited (Stockland Green Broadway School)	Lend Lease Construction (EMEA) Limited (Waverley School)
Lend Lease FM Limited (Broadway School)	Lend Lease FM (EMEA) Limited (George Dixon School)	Lend Lease FM (EMEA) Limited (HM and Stockland Green School)
Lend Lease FM (EMEA) Limited (International School)	Lend Lease FM (EMEA) Limited (Moseley School)	Lend Lease FM (EMEA) Limited (Park View School)
Lend Lease FM (EMEA) Limited (Saltley School)	Mears Group plc	Mears Limited
Mitie PFI Limited	Mouchel Limited	NSL Limited (Birmingham)
NSL Limited (Solihull)	Premier Security Services Limited	Premier Support Services Limited (Alumwell Junior School)

Page 211

Transferee Admission Bodies (Best Value)		
Premier Support Services Limited (Alumwell Infant School)	Premier Support Services Limited (St Edmunds Campion School)	Premier Support Services Limited (Holy Trinity RC)
Premier Support Services Limited (Hodge Hill School)	Premier Support Services Limited (Streetly School) - terminated 27 October 2013	Premier Support Services Limited (Trinity RC)
Quadron Services Limited	Redcliffe Catering Limited (Calthorpe School)	Regent Office Care Limited (COWAT)
Regent Office Care Limited (Henley College)	Regent Office Care Limited (Willenhall)	Serco Limited - terminated 31 May 2013
Service Birmingham Limited	Sodexo Limited	Taylor Shaw Limited (Colton Hills)
Taylor Shaw Limited (COWAT)	Taylor Shaw Limited (Great Barr School	
Willmott Dixon Partnership Limited (North Contract)	Willmott Dixon Partnership Limited (South Contract)	
Without Active Members		
Accord Operations (Birmingham)	Alliance in Partnership - Aston	APCOA Parking (UK) Limited Solihull
AWG Facilities Services Limited	Birmingham Accord Limited	Bovis Lend Lease Management Services
Burrowes Street Tenant Management Organisations Limited	Central Parking Systems	Enterprise (AOL) Limited (Shrewsbury)
Enterprise (AOL) Limited (Shropshire)	Forest Community Association	GF Tomlinson Birmingham Limited
Icare GB Limited	Interserve Construction Limited (Smethwick Campus)	Interserve Construction Limited (OCOS/WODO/Tipton Schools)
Interserve Construction Limited (Rowley Campus)	JDM Accord Limited (Shrewsbury & Atcham)	JDM Accord Limited (Shropshire)
JDM Accord Limited (Tamworth)	JDM Accord Limited (Telford & Wrekin)	Kite Food Services Limited
Lawrence Cleaning Limited (Woodthorne School)	Liberata UK Limited	Methodist Homes for the Aged
Mitie Cleaning (Midlands) Limited - Birmingham City Council	Mitie Managed Services (S&SW) Limited	Mitie Managed Services (S&SW) Limited - Coventry
Mitie Cleaning (Midlands) Limited - Wednesfield	Mitie Property Services (UK) Limited	MLA West Midlands
Morrison Facilities Services Limited		Redcliffe Catering Limited (Bordesley Green Girls Sch)
Redcliffe Catering Limited (Camp Hill School)	Regent Office Care Limited	Regent Office Care Limited (City College)
Regent Office Care Limited (Whitefriars)	Research Machines Plc	RM Education Plc

Transferee Admission Bodies (Best Value)		
Revenue Management Services	Service Team Limited	South Warwickshire Tourism Limited
Strand Limited	Superclean Services	Target Excel Plc (Magistrates Courts)
Target Excel Plc (Solihull MBC)	Taylor Shaw Limited (St Albans)	Taylor Shaw (Hodge Hill)
Technology Innovation Centre *(terminated 31 March 2009)*	Temple Security Limited	Thomas Vale Construction plc
Veolia Environmental Serviced Cleanaway (UK) Limited	Vertex Data Science Limited	Wates Construction Limited (Birmingham)
West Midlands E-Learning Company		
Other Major Employers who have Participated in the Fund		
Birmingham International Airport Plc	Department of Transport	Department of Health and Social Security
Severn Trent Water Authority	West Midlands Magistrates Courts Committee	

Scope of Responsibility

Wolverhampton City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

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

Wolverhampton Homes Limited is the Council's Arm's Length (Housing) Management Organisation (ALMO) and is a company wholly owned by the council. The control of the ALMO is through the Board which has representatives drawn from 1/3 council, 1/3 tenants and 1/3 independent. There is a Management Agreement between the council and Wolverhampton Homes Limited which sets out the contractual and governance arrangements between the parties.

10. ANNUAL GOVERNANCE STATEMENT

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 2014 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework and Review of Effectiveness throughout 2013/14

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

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

10. ANNUAL GOVERNANCE STATEMENT

Core principles of the CIPFA/ SOLACE framework	Assurances required	Governance framework providing assurance	Review of Effectiveness	Issues identified
Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area Members and officers working together to achieve a common purpose with clearly defined functions and roles Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	• Delivery and communication of an agreed corporate plan • Quality services are delivered efficiently and effectively • Clearly defined roles and functions • Management of risk • Effectiveness of internal controls • Compliance with laws, regulation, internal policies and procedures • Value for money and efficient management of resources • High standards of conduct and behaviour • Public accountability • Published information is accurate and reliable • Implementation of previous governance issues	• The Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) • Council, Cabinet and Committees • Scrutiny function • Audit Committee (and Sub-Committee) • Standards Committee • Internal and External Audit • Strategic Executive Board • Corporate Development Board • Directors Assurance Statements • Corporate and business plans • Medium Term Financial Strategy • Corporate Risk Register • Codes of Conduct • Business Planning and Performance Management Framework • Whistleblowing and other anti-fraud related policies • Complaints System • Financial Procedures Rules • Contracts Procedure Rules • Committee Management Information Systems (now modern.gov)	• Statement of Accounts 2013/14 • External Audit Report to Those Charged with Governance (ISA 260) Report 2013/14 • Annual Internal Audit Report 2013/14 • Annual Audit Committee Report 2013/14 • Local Government Ombudsman Report 2013/14 • Scrutiny reviews • Annual Governance Statement – follow up of 2012/13 issues • Director of Public Health Annual Report 2013/14	Corporate Landlord / FutureSpace Savings Targets PSN Compliance Contract Management and Monitoring Procurement Health and Social Care Reforms FutureWorks Partnership Governance Information Governance Strategic Asset Management Schools Improvement

Developing the capacity and capability of members and officers to be effective Engaging with local people and other stakeholders to ensure robust public accountability				

Page 217

West Midlands Pension Fund

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

Wolverhampton Homes Limited

Wolverhampton Homes Limited have included a Statement of Corporate Governance within the Company's Financial Statements for 2013/14. This states that the control framework has been reviewed by the Company's Audit Committee on behalf of the Board of Wolverhampton Homes Limited and found to be effective. The review included an assurance statement from the Company's internal auditors.

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

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

- The transition of Public Health Services to the council from 1 April 2013.
- The establishment of the Health and Well Being Board as a committee of the council which has responsibility for tackling local health inequalities.
- The implementation of and compliance with the Public Sector Internal Audit Standards from 1 April 2013.
- An updated Terms of Reference for the Audit Committee

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Members and senior officers within the council who have responsibility for the development and maintenance of the governance framework, Internal Audit's annual report, the Scrutiny function and also by reports made by the council's external auditors and other review agencies and inspectorates, as noted above.

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

There is a requirement to report in this Statement that the authority is not fully compliant with CIPFA's Statement on the Role of the Section 151 Officer in Local Government (2009) as the Section 151 Officer post is not at the same level in the Authority as members of the Corporate Management Team (known as the Strategic Executive Board) and they do not report directly to the Chief Executive. However, alternative arrangements are in place whereby the Section 151 Officer attends meetings of the Corporate Management Team and has direct access to the Chief Executive when required.

A number of issues were identified in the 2012/13 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas is included below. Where sufficient progress has not been made, the issues have been included in the 2014/15 issues.

Progress on the Governance Issues from 2012/13

The table below describes the governance issues identified during 2012/13 and the progress made against these during 2013/14.

2012/13 - Key areas for Improvement	Update on position and implication for the 2013/14 Annual Governance Statement
FutureSpaces: Corporate Landlord The management of and responsibility for the council's property assets is currently split between two directorates. Several initiatives and proposals for maintenance programmes and better targeted use of properties have been put forward. It is necessary that clarity of ownership and control of decision making is determined to ensure effective progress is made. Also work is on-going to improve the co-ordination of responsibilities as the Council develops the role of a 'Corporate Landlord' between the Directorates, along with the continued development of a 'One Council' approach to the use of land and assets and the development of options and a strategy to utilise available properties for community use that are not council owned	**The Corporate Landlord** The necessary planning for the introduction of the Corporate Landlord was completed to the set deadlines with the Corporate Landlord subsequently having been implemented incrementally. The key outputs being as follows: • The approved governance arrangements are now fully operational with the Strategic and Operational Land and Property Boards meeting regularly with integrated work programmes, with shared programme management resources. • The Strategic Asset Review is scheduled for completion in June 2014 as planned. • There has been a lifting and shifting of property related service functions from the Community Directorate and the Education and

property.	Enterprise Directorate to create the Corporate Landlord in the Delivery Directorate. This is being followed by a budget centralisation and review exercise and process re-design. **FutureSpaces** A delivery plan is being developed based on the council supported by technical advisors developing the detailed design for the refurbishment of the Civic Centre for the open tendering of the refurbishment works through an OJEU Notice. This is essential to ensure a robust Final Business Case for the Cabinet to approve to give a final approval to the programme. **Carried forward to 2013/14**
Information Governance Following critical in-year reviews by the Information Commissioners Office in August and December 2012, the council is putting in place a robust framework and effective working practices, including: • An established and operational Information Governance Board • Mapped out work programme and resources • A new Information Governance structure • Information Governance policies have been approved • Training programmes are underway	The Information Governance Board continues to meet, and is now supported by an operational group to progress key issues in relation to information governance. The council has now centralised all information governance resource into one team which has enabled the development of a single work programme, against which significant progress is being made. The work plan and maturity model were endorsed by the Cabinet in March 2014, and progress has also been scrutinised by the Council's Scrutiny Board. The mandatory training module has been rolled out primarily by e-learning but supported by a number of training sessions for employees, and 100% compliance has been completed. The council is both PSN and Public Health Information Governance Toolkit compliant, and is on track to submit the Social Care Toolkit. **Carried forward to 2013/14**
Partnership Governance Partnerships are increasingly common and increasingly important to the council, in order to deliver the corporate plan and respond to the	Work has begun on a number of the Council's partnerships including: **Black Country working:** A Black Country Joint Committee and Advisory Board has been established by Wolverhampton City Council and the three

Localism agenda. These partnerships take many forms. For example, formal arrangements such as strategic service delivery partnerships, statutory partnerships and looser, informal relationships with community groups or the ‘third sector’. Although each of these partnerships is formed to generate beneficial outcomes they also carry different types of risks and governance can be problematic. In addition, some of the council’s partnerships have been in place for a number of years and the ‘health’ and governance arrangements of these partnerships have not been systematically reviewed to ensure they continue to contribute effectively to the corporate priorities. Therefore, the council is to adopt a revised systematic and consistent approach to identifying its significant partnerships. Once the significant partnerships have been identified, a systematic review of the governance arrangements and the ‘health’ of each partnership will be carried out to ensure they continue to contribute to the corporate priorities and provide value for money. The findings of the reviews and the risks associated with these partnerships will then be reported to officers and Councillors with portfolio responsibilities.	neighbouring local authorities and the Black Country LEP. This will provide strong joint governance for the Black Country City Deal and Black Country Growth Deal. A framework of how this inter-relates with the council governance has been produced and considered by the Strategic Executive Board. **City Partnerships:** The Local Strategic Partnership has been replaced by a City Board that will drive forward the City Strategy (the Sustainable Communities strategy for the city). The representatives on the City Board are the Leader and the Chief Executive. The Board is in shadow form, until September 2014. The governance framework will also continue to be checked and rolled out across the key partnerships. **Carried forward to 2013/14**
Contract Management and Monitoring The council has historically had an inconsistent approach to its contract monitoring. New processes are being put in place to ensure that contracts can be monitored and reviewed on an on-going basis for value for money in the future.	A draft guidance document for contract management is in the early stages of discussion and it will be necessary to develop this approach widely across the council, and agree how it can be applied. A simple set of procedures to support the approach will be added to contract procedure rules. It will then be necessary to identify contract managers and provide training. Timing for these activities is currently being worked up. **Carried forward to 2013/14**
Procurement The Interim Head of Procurement had raised concerns over past tendering processes and the failure to follow the council’s Contract	The adoption of the Due North e-tendering system and the Agresso ordering system has provided much improved controls and management information and the continued refinement and use of these systems

Procedure Rules. Following an independent review, these concerns were supported by the findings of Internal Audit who identified a number of cases of inconsistencies and ambiguities at various stages of the procurement processes. The recommendations arising from the audit review were agreed and a range of improved working practices are being put in place.	enhances accountability and compliance across the council. The Procurement Board have agreed to consider amendments to the contract procedure rules to simplify and rationalise the working practices in procurement. Once the Board has considered the revisions and agreed any changes to be made within the constitution, a structured training programme can be developed. **Carried forward to 2013/14**

Savings Targets While the council's current and historical savings targets have been largely delivered, there are still a limited number of such targets that have not yet been and also some, where proposals are yet to be developed. A failure to meet these targets will adversely impact upon the council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and Councillor level.	All savings were fully reviewed and re-evaluated as part of the 2014/15 budget setting process that was completed in March 2014. This process identified that a number of savings that were reflected in the 2013/14 budget were to be achieved in an alternative way and not as originally planned. These changes have been reflected in the rebased 2014/15 budget and the original savings removed. In addition no significant adverse overall impact arose during 2013/14 as a result of the savings targets that were included in the budget.
Resilience Function (Emergency Planning and Business Continuity) The council has identified issues in its ability to respond fully to its responsibilities under the Civil Contingencies Act. The Cabinet has approved the creation of a new Resilience Team in 2013/14 to bring together the separate Emergency Planning and Business Continuity functions. This is to underpin the delivery of the new Major Incident Plan and suite of subsidiary plans. The Resilience Team will operate within new governance arrangements and report to a Board. The Board will oversee the delivery of the adopted project plan for Resilience that will be reviewed monthly by the Strategic Executive Board. Annual audits will also be conducted to validate progress against the project plan.	The Resilience Board is now fully operational against the approved governance arrangements. The Board has developed a work programme for 2014/15 that integrates council and public health roles and responsibilities. Good progress is being made against this work programme.

Equalities The council has identified issues in its ability to respond fully to its responsibilities in respect of equalities and consultation. An Equalities Project Board has been formed and approved an equalities work programme. This programme identifies ways of mainstreaming and promoting best equalities practice. Appropriate measures will be implemented during 2013/14.	To further support the roll out of the equalities training a number of employee briefing sessions have been delivered. The Equalities Member Champion continues to chair quarterly the Equalities Advisory Group. An internal officer equalities steering group has also been instigated and meets at least quarterly. Finally, a cumulative equality analysis of the budget was conducted, and lessons learnt from the process have been captured in order to continue to improve the equality analysis toolkit.

Action Plan for the Significant Governance Issues identified during 2013/14 which will need addressing in 2014/15

Based on the council's established risk management approach, the following issues have been assessed as being "significant" for the purpose of the 2013/14 annual governance statement. Over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken. These actions will address the need for improvements that were identified in the review of effectiveness and their implementation will be monitored as part of the next annual review and risk management arrangements in place.

<table>
<tr><th>2013/14 - Key improvement areas and actions for implementation</th><th>Responsibility and expected implementation date</th></tr>
<tr><td>FutureSpaces
Delivery arrangements are being developed for the refurbishment of the Civic Centre. The intention is that construction works will begin in early 2015 subject to the final business case evidencing an on-going annual revenue saving of £500,000.
Corporate Landlord
The adoption of the Corporate Landlord Model is being progressed incrementally against the Strategic Asset Management Review. The adopted work programme for the implementation was approved by both the Strategic Land and Property Board and the Operational Land and Property Board and is now being actively monitored by both Boards. The key deliverables in the programme include:
Centralisation of property related budgets.
Creation and delivery of a funded programme of annual condition surveys and statutory testing.
Creation and delivery of more robust cyclical maintenance programme based on the annual condition surveys.
Development and delivery of a more robust Disposal Programme to achieve the capital receipts from disposals in the MTFS.
Agreement of service profiles by building profile for services for Facilities Management to deliver to their clients.
Development and delivery of the annual renewables programme.
Support to service reviews being conducted with Directorates in respect to providing options appraisals in respect to meeting the property needs for new service operating models.
Development of a revised Corporate Asset Management Plan.</td><td>Assistant Director, Delivery
February 2015</td></tr>
</table>

Savings Targets Whilst the council's current and historical savings targets have been largely delivered the extremely challenging financial environment continues to require substantial year on year savings. The failure to deliver already identified savings and develop further savings will adversely impact upon the council's ability to meet its objectives. Close monitoring of the situation continues at both senior officer and Councillor level.	Assistant Director, Finance March 2015
PSN Compliance Prior to 2013 Wolverhampton City Council obtained GCSx accreditation enabling secure access to and exchange of information with central government and government agencies. The introduction of the Public Services Network (PSN) during 2013 demanded improved technical security standards and more robust Information Governance requirements. Wolverhampton City Council's compliance with the PSN Code of Connection requirements was approved by the Cabinet Office on 19 November 2013 following an independent health check of the council's ICT estate, looking for vulnerabilities from external sources of attack and from within the council followed by a comprehensive evaluation of the council's network and security architecture, ICT operational practices and information governance policies by CLAS consultants at the Cabinet Office. PSN compliance remains at the heart of all ICT decisions regarding the introduction of new services. A continual programme of infrastructure upgrades and refresh ensures compliance is maintained, with the council undertaking the annual accreditation process during May and June 2014.	Head of Service – ICT March 2015
Contract Management and Monitoring Having identified the range of contracts that are in place the main task is to establish how the reporting process is being managed and whether the contracts are meeting their original expectations. With the wide variety of contracts it will be necessary to develop several different approaches to contract management however the main principles will be early involvement for the contract managers (at tender stage), regular reporting on performance, planned reviews to assess the options available and general awareness training for nominated contract managers.	Strategic Director, Delivery Assistant Director, Finance March 2015
Procurement The Procurement Board will be instrumental in guiding the development of strategic procurement. The introduction and utilisation of e-procurement systems (Agresso and Due North) will increase the overall visibility of spend and the profile of this spend can be matched to the contract register. The improved management information will be useful to target particular categories of expenditure and develop procurement strategies that will extract value for money. The use of market sounding, options appraisals and output based specifications will also contribute to improving budgetary controls	Strategic Director, Delivery Assistant Director, Finance March 2015

and increasing the percentage of on contract spend. We will be using collaborative arrangements where these are beneficial to the council and selecting the appropriate frameworks will be carried out in conjunction with the operational experts. The use of standardised forms and procedures will also aid compliance.	
Health and Social Care Reforms Over the next few years adult social care is required to take a lead role in implementing a service delivery transformation to effectively respond to a number of challenges and opportunities which arise due to significant budget reductions and changes to local and national policy. To be delivered successfully, the service transformation involves putting agreed strategies and plans in place. One of the strategies to be implemented is the Better Care Fund which is an integrated pooled budget to support health and social care to work together in local areas. To achieve the outcomes of the fund will require strong partnership working. Significant planning and investment of resources will also be required to set up primary care, prevention and community services in order to achieve the fund outcomes. Another strategy the council will be required to implement will be the Care and Support Bill in April 2015. Mapping, analysis and assessment of the detailed requirements of the Bill to identify the resources required to implement the changes, needs to be undertaken to fully assess the impact of the Bill on the council. 'The Health and Wellbeing Board will be accountable for the authorisation and delivery of the fund. The Terms of Reference and governance of the Health and Wellbeing Board are being reviewed to take account of these new responsibilities '.	Assistant Director, Health, Wellbeing and Disability March 2015
FutureWorks The FutureWorks Programme delivered the new Agresso IT system on 1 April 2014 in line with the contractual timescales. This new system and processes are being used across the council and its partner organisations of Wolverhampton Homes Limited and West Midlands Pension Scheme. This successful delivery has enabled the council to start delivering the agreed year one savings. The council is now embarking on delivering phase 2 of the programme in rolling our self-service functionality which will maximise the return on investment as council services are transformed. The council will continue to manage the risks around the general governance and structure of this programme and through the general programme controls it will bring.	Strategic Director, Delivery Assistant Director, Finance March 2015
Partnership Governance While work has begun on a number of the council's key partnerships, a systematic approach to identifying all of the significant partnerships and in determining the level of review of the governance arrangements alongside the 'health' of	Assistant Director, Partnerships, Economy and Culture supported by the

each partnership, is still being rolled out and will be quite a sizeable task.	Chief Legal Officer March 2015
Information Governance The council is building on the robust framework and effective working practices it has put in place since consensual audits from the Information Commissioner's Office in 2012 and an enforcement notice in 2014, including: • Supporting the Information Governance Board through the development of an operational group to drive progress • Mapped out a centralised work programme and resources including a new structure • Review of all Information Governance policies • Roll out of a suite of training programmes, including ensuring there is 100% compliance with the mandatory 'Protecting Information' training to all employees	Head of Policy March 2015
Strategic Asset Management The Corporate Landlord model has now been formally adopted by the council. The implementation of the model and developing a clear understanding of the accountability for activities and financial management will continue. As part of the Corporate Landlord approach Strategic and Operational Land and Property management is now covered by two governance Boards. The Strategic Land and Property Board is chaired by the Strategic Director Education and Enterprise, and attended by the Corporate Landlord (Strategic Director Delivery). The Operational Land and Property Board is chaired by the Strategic Director Delivery. The Strategic Land and Property Board meets monthly and the Operational Land and Property Board meets fortnightly. Both Boards consider land and property matters and consult Members through the existing processes of Cabinet Member Briefing; Property Advisory Group and Executive Team prior to decisions being formally made in line with the Council's Constitution. The Strategic Asset Review has now concluded with the agreed categorisation of assets, and clear accountability established for assets including those considered to be of strategic importance (for Economic Growth and Regeneration including Housing). Strategic Asset Management will in the future be supported by the Corporate Landlord's Asset Management team acting as a single source of information and knowledge for the council's assets making sure that the respective governance boards are provided with accurate and relevant information enabling informed decision making and	Strategic Director, Education and Enterprise and Assistant Director, Delivery March 2015

direction.	
Schools Improvement The council's vision is to create an education system in Wolverhampton that promotes higher standards for all children and young people and closes the attainment gap. This is a system where the council celebrates school autonomy and supports school leaders and teachers in leading school improvement and having the highest expectations of every child and young person. The council's strategic approach to school improvement therefore is to support effective school to school collaboration, strong partnerships and to develop excellent practice in schools whilst demonstrating clear leadership and challenge in the delivery of the its duties in relation to school improvement. This leads to three clear and related targets: • To ensure that every child in the city has an excellent education. • To raise standards in schools and academies so that by September 2016 attainment and progress measures at all key stages match or exceed national averages. To improve the quality of provision in schools and academies so that by September 2016 all schools, settings and academies achieve an Ofsted inspection judgement of good or outstanding.	Assistant Director, Education and Enterprise March 2015

Future Assurance

Progress reports on the implementation of the above actions from these key improvement areas will be produced by Audit Services and reported to the Audit Committee during 2014/15.

Certification

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

Roger Lawrence, Leader of the Council:

Date:

Simon Warren, Chief Executive:

Date:

11. GLOSSARY

Academy
A school which chooses to opt out of a local authority's control and maintain its own funding.

Accruals (Accrual Accounting)
Refers to the fundamental accounting principle that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
See Receivables, Payables

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

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

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

Asset
An item that is owned by and can be used by the council.
See 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 Rate or National Non-Domestic Rates (NNDR)
Businesses across the country have to pay business rates. The government decides how much they should pay and Local Authorities collect the money. Local authorities pass the money to the Government who then share the total amount collected nationally between Authorities to help pay for local services.

Capital Adjustment Account
From 2007/08 onwards, an account whose purpose is to serve as a balancing mechanism between the different rates at which assets are depreciated in line with the SORP, and are financed under the capital controls regime. It is shown in the Balance Sheet as a reserve, although it does not represent funds available for future expenditure.
See Capital Financing Requirement

Capital Expenditure
Expenditure on the acquisition of property, plant and equipment, or expenditure which adds to, and not merely maintains, the value of an existing asset.
See Deferred Charge, Property, Plant and Equipment

Capital Financing Requirement
An amount calculated as Non-Current Assets less the balances on the Capital Adjustment Account.
See Minimum Revenue Provision

Capital Programme
The plan of approved spending on non-current 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 receive a Dedicated Schools Grant (DSG) direct from the Government, which is paid over to schools.

Deficit
This occurs when spending exceeds income (opposite of surplus).

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

De Minimis
The minimum value below which expenditure and income in respect of assets is not capitalised, but is charged or credited to revenue in full in the period it was incurred or earned.
See Capital Expenditure

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of property, plant and equipment.
See Impairment

Disclosure
Additional information required by the Code of Practice if a set of conditions are met. If the council judges that the conditions have not been met in its case, they will make no disclosure.
See Code of Practice

Discount
A reduction given by a lender in the amount to be repaid on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the borrower.
See Premium

Dividend
A payment made by a company out of profits to its shareholders.

Earmarked Reserve
A sum set aside for a specific purpose.
See Usable and Unusable Reserves

Events after the Reporting Period
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:
(i) in respect of which construction work and development have been completed.
(ii) is held for its investment potential, any rental income being negotiated at arm's length.

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

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

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

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

Provision for the Redemption of Debt (MRP)
A minimum amount, determined according to a formula approved by the council, which must be charged to the revenue account, for debt redemption or for the discharge of other credit liabilities.
See Capital Financing Requirement

National Non-Domestic Rates (NNDR)
Rates which are levied on business properties and collected by the council and accounted for on an agency basis. These funds are then distributed between the General Fund and other public bodies.

Net Book Value
The amount at which property plant and equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.
See Property Plant and Equipment

Net Current Replacement Cost
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Net Worth
A monetary value, defined as the value of the council's assets less the value of its liabilities. This is the "bottom line" of the Balance Sheet.

Non-Current Asset
An item, for example land, buildings and vehicles, which yield benefits to the council and the services it provides over a period of more than one year.

Obsolescence
The term used to describe an asset which no longer has any value to an organisation due to changes in the organisation's operating environment or the emergence of overwhelmingly superior alternatives to that asset.
See Impairment

Operational & Non-Operational Assets
Operational Assets are those that are used directly in providing council services. Non-operational assets are assets held for any other purpose, for example for investment or where they are no longer used and have been earmarked for disposal.
See Property Plant and Equipment

Operating Leases
Leases other than a finance lease.
See Finance Leases

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

Precept
The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor.

Premium
An amount charged by a lender (over and above the outstanding principal) on early redemption of a loan. This is generally where the terms of the loan (relative to current market conditions) are favourable to the lender.
See Discount

Prior Year Adjustments
Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)
A government initiative which enables authorities to carry out capital projects through partnership with the private sector.

Property, Plant and Equipment
Tangible assets that yield benefits to the council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.
See Capital Expenditure

Provisions
Amounts set aside in respect of a liability of uncertain timing or amount, where a reliable estimate of the potential value can be made.

Prudence
This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

Receipts in Advance
Money received before the end of the financial year, but which relates to the following financial year.

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

Related Party
There is a detailed definition of related parties in FRS 8. For the council's purposes, related parties are deemed to include:
(i) the elected members of the council and their partners.
(ii) the chief officers of the council.
(iii) the companies in which the council has an interest.
(iv) central government and preceptors of Wolverhampton's Collection Fund.
(v) other entities which the council has the ability to control or influence.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either;
(i) an employer's decision to terminate an employee's employment before the normal retirement date; or
(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure
Expenditure on the day-to-day running costs of services e.g. employees, premises, supplies and services.

Revenue Expenditure Funded From Capital Under Statute
Spending on assets that have a lasting value but are not owned by the council, for example, improvement grants.

Revenue Support Grant (RSG)
Grant from central government towards the cost of providing General Fund services.

Ring fenced
Certain accounts, such as the Collection Fund, must be maintained separately outside the General Fund as a statutory requirement.

Service Reporting Code of Practice (SERCOP)
This guidance is issued by CIPFA and determines the costs which should be shown in the service lines in the Consolidated Income and Expenditure Statement, by determining which types of cost and income should be shown against which service. This promotes comparison between authorities by readers of the accounts.
See Income and Expenditure Account/Statement

Trust Fund
A fund administered by the council on behalf of others for such purposes as charities and specific projects.

Usable Reserves
Reserves that can be applied to fund expenditure or reduce local taxation.

Unusable Reserves
Amounts that have come about purely from accounting adjustments and are not therefore available to spend.

Useful life
The period over which the council will derive benefits from the use of an asset.

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

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

Agenda Item No: **7**

Audit Committee

22 September 2014

Report title	2013/14 report to those charged with governance	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Keith Ireland, Delivery	
Originating service	Strategic Finance	
Accountable employee(s)	Mark Taylor Tel Email	Assistant Director Finance 01902 556609 mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	None	

Recommendations for noting:

The Committee is asked to note:

1. The 2013/14 report to those charged with governance from the council's external auditors PricewaterhouseCoopers.

1.0 Purpose

1.1 To present to members of the committee the 2013/14 Report to those Charged with Governance

2.0 Background

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

3.0 Content of the report

3.1 The attached external audit report covers:

(a) Issues arising from the external audit of the financial statements, which were previously submitted to the Audit Committee on 14 July;

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

(c) The letter of representation to be signed by the Assistant Director Finance as the Section 151 Officer.

4.0 Financial Implications

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

4.2 The ISA 260 report, and the audit of the accounts, are of fundamental importance to the council's governance and financial control frameworks, and play a key role in ensuring accountability and transparency in the council's finances.
[CF/15092014/S]

5.0 Legal implications

5.1 The Accounts and Audit Regulations require the 2013/14 Statement of Accounts to be produced in accordance with proper practice. This is the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are certified by the Section 151 Officer by 30 June 2014 and published by 30 September 2014.
[TS/15092014/M]

6.0 Equalities implications

6.1 There are no equality implications arising from this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from this report.

8.0 Human resources implications

8.1 There are no human 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 Schedule of background papers

Draft Statement of Accounts 2013/14, report to Audit Committee, 14 July 2014

This page is intentionally left blank

www.pwc.co.uk

Wolverhampton City Council

Report to those charged with governance

Report to the Audit Committee of the Council on the audit for the year ended 31 March 2014

Required by International Standard on Auditing 260 – Reporting to those charged with governance

Government and Public Sector

September 2014

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

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

Contents

Executive summary

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Page 251

Background

This report contains the significant matters arising from our work.

We presented our plan to you in March 2014. In our progress report in July 2014, we told you about an amendment to our audit approach for the Implementation of Agresso.

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and Value for Money conclusion by 30 September 2014 following approval of the Statement of Accounts by the Section 151 Officer and the Audit Committee on the 22 September 2014.

There are a few minor outstanding matters – we will update you at the Committee.

Quality of draft accounts

Your draft accounts were submitted to us by the 30 June deadline and were of a good quality. Management agreed to make some changes to disclosures that we suggested.

Readiness for start of audit and working papers

Working papers were ready at the start of the audit and we had already been able to select samples of transactions for audit testing.

Availability and responsiveness of staff

The finance team and key contacts elsewhere were available throughout the audit and responded promptly to our audit questions and requests for information.

Significant audit and accounting issues

We identified some audit and accounting issues during the audit which are explained later in this report. We are satisfied that these are appropriately reflected and disclosed in the financial statements and will be giving an unqualified opinion on the 2013/14 financial statements.

Deficiencies in internal control systems

We identified one significant deficiency in internal control. Your records of land and buildings areas which underpin your valuations are not always accurate. Management has already put a new system in place to address this. See page 24. We did not identify any further deficiencies.

Risk of fraud

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

Annual Governance Statement

We have confirmed that the Annual Governance Statement has been prepared in accordance with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework.

Value for Money

We will be issuing an unqualified Value for Money conclusion. We report in more detail a summary of our work and the findings that we wish to bring to your attention and that support our overall conclusion later in this report.

Reporting to you

The following reports have been issued to those charged with governance in 2013/14:

- External Audit Plan 2013/14 – March 2014
- External Audit Progress Report 2013/14 – July 2014

We have issued the following report to the Strategic Director Delivery during 2013/14:

- Financial Resilience report – September 2014

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance. We look forward to discussing our report with you on 22 September 2014.

We thank the Finance Team and others for their support and assistance during the course of our work.

Audit approach

We reported our planned audit approach to you in our 2013/14 Audit Plan. This was supplemented by a report to the Audit Committee in June 2014.

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

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

Page 253

Our audit approach was set out in our audit plan which we presented to you in March 2014. In our progress report presented to you in July 2014 we provided an update against our plan which included elevating the risk of misstatement from the Implementation of Agresso.

We have summarised below the audit approach we took to address each significant and elevated risk identified in our audit plan and the outcome of our work.

Risk	Category	Audit approach	Results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	We considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We performed procedures to: • review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported year-end position; • review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable; • evaluate the business rationale underlying significant transactions outside the normal course of business; and • target fraud risks through the use of unpredictable procedures.	**No instances of management override of controls were identified as a result of our work.**

Risk	Category	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are equally likely to present themselves through manipulation of expenditure in the public sector.	Significant ●	We performed a broad range of specific audit procedures to address this risk as well as taking assurance from other audit work. In particular, we: • understood and evaluated key income and expenditure controls; • evaluated the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting; • tested the appropriateness of journal entries and other adjustments; • reviewed accounting estimates for income and expenditure, for example, provisions; • performed cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period; and • performed unrecorded liabilities testing.	**No issues were noted as a result of these procedures.**

Risk	Category	Audit approach	Results of work performed
Property, Plant and Equipment Valuation Property, Plant and Equipment (PPE) is the largest figure on your Balance Sheet. You value your properties at fair value using a range of assumptions and the advice of internal and external experts. Specific areas of concern risk for 2013/14 included the risk that: • asset valuation base data may be inaccurate or incomplete; • the Council's valuation assumptions may not be appropriate; • assets' actual market values may fluctuate materially but may not have been re-valued in the accounts; • capital expenditure may not be accurately allocated between enhancing and non-enhancing; and • newly established Academy schools may not have been correctly treated in the accounts.	Significant ●	We reviewed the judgements, assumptions and data used; the reasonableness of estimation techniques applied; and the expertise of your valuation experts. We considered the Council's response to control recommendations made in the previous year and validated base data to underlying records. We reviewed the accounting entries made to recognise the valuation changes in the accounts. We reviewed the accounting treatment and corresponding valuation of schools that have achieved Academy status during 2013/14, and confirmed that these have been dealt with in accordance with agreed accounting practice. Where assets were not re-valued in year we understood the steps taken to ensure that your balance sheet is materially accurate at the year end.	We identified discrepancies in the base data used in the revaluation of PPE. In a small number of cases we were not able to confirm gross internal floor areas of buildings to supporting evidence. In response, the Council instructed surveyors to provide up to date measurement for those properties. **Based on the outcome of these surveys we have been able to conclude that the base data used results in a materially accurate valuation.** Although we have identified a control weakness over base data quality, the Council has been able to correct for issues identified and demonstrate that the impact of remaining data discrepancies is immaterial to the accounts. Further details are provided on page 10. **No further issues were noted in our work performed.**

Risk	Category	Audit approach	Results of work performed
Provision for Equal Pay As in previous years, the Council is expected to include a provision in the accounts to reflect its liability for Equal Pay and back pay claims. Over the last six years the Council has received notification of employment tribunal claims against the Council alleging breach of Equal Pay legislation. The Council has engaged Solicitors to provide legal advice and conduct proceedings on behalf of the Council in relation to these claims. On the basis of the advice provided and the information available the Council concluded on what it felt was the most probable liability as at 31 March 2014. That provision figure reflected known claims as well as other potential claims.	Elevated ●	We have updated our understanding of the Council's arrangements for managing these matters through discussion with key officers. The Section 151 Officer has kept us updated on developments regarding the Council's efforts to settle its outstanding equal pay liabilities. We have reviewed the Council's draft accounting policies with respect to the recognition of related expenditure and the measurement and valuation of related liabilities, and have no concerns to report. We evaluated the accounting policies for recognising associated expenditure and liabilities. We tested whether payments, journal entries and other adjustments in the financial statements relating to Equal Pay are materially accurate and whether they meet relevant financial reporting standards. We sought confirmation on these matters from the Council's legal advisors. We reviewed and challenged assumptions made by the Council regarding relevant case law and the associated implications for the Council's provision.	**No issues were noted as a result of these procedures.**

Risk	Category	Audit approach	Results of work performed
Implementation of Agresso The risk around Agresso implementation was reported to the Audit Committee as a 'normal' risk in our audit plan. Difficulties noted during the implementation process, and concerns about resulting complications during the audit process increased the risk to our audit. In particular, there was an increased risk of misstatements due to incorrect data migration and reliability of reports run from Agresso as well as potential difficulties in identifying 13/14 accruals as a result of the issues surrounding implementation of the creditors module within Agresso. We therefore increased the risk level to reflect this, and the additional work required in this area.	Elevated ●	We understood, evaluated and validated controls within the new ledger system , specifically within the following domains: • Data transfer from the old to new ledger system; • Access control; • Computer operations; and • Change management. We carried out a walk-through of the creditors and debtors end to end processes to confirm that our proposed audit approach will not be affected. We also performed additional procedures around the completeness and cut-off of year end creditor balances, to respond to the system issues noted around the payments module, to ensure that period end balances are accurate and complete.	**No issues were noted as a result of these procedures.**

Intelligent scoping

In our audit plan we reported our planned overall materiality and methodology underpinning it. We use this materiality when planning the overall audit strategy.

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

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

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2014.

Our materiality thresholds were updated on receipt of the draft 2013/14 financial statements.

Our revised materiality levels for both the Group and Council only audit are as follows:

	Group	**Council only**
	£m	£m
Overall materiality	14.5	13.8
Clearly trivial reporting de minimis	0.7	0.7

Significant audit and accounting matters

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

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

We anticipate issuing an unqualified audit opinion.

Page 259

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

Accounts

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

- completion of our internal review and quality control procedures including our final review of the Council's amended financial statements and post audit adjustments;
- approval of the Statement of Accounts and letters of representation by the Audit Committee;
- receipt and review of the final signed financial statements and Annual Governance Statement;
- receipt of the signed representation letter; and
- completion procedures including subsequent events review.

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

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

Accounting issues

Valuation of property, plant and equipment

Your accounting policy is that your property, plant and equipment is shown at fair value. This requires review of the value of your housing stock and other land and buildings every year.

Your internal valuers make judgements about property values which we benchmark using an Audit Commission annual report from an independent Chartered Surveyor, including trends in land prices and building cost indices.

We also tested that the underlying data on the type, size and nature of assets used in the valuation - 'base data' - was appropriate by checking supporting documentation.

Early in the audit we found differences between some floor areas and land acreages in your property systems and those used in the valuations.

In response, the Council updated the revaluation before preparing the draft accounts and presented a revised revaluation for final audit.

We were still unable to confirm the accuracy of the base data for 16 properties in our sample. The Council instructed its surveyors to provide up to date re-measurements for these properties so that we could confirm the accuracy of the records used by the valuer.

We did identify a number of small differences in the actual size of the properties to the size used by the Valuer but these were not significant. When we find an error in a sample we have to consider whether similar errors in the whole population might be material. Even after extrapolating the error rate to the whole population, the variance was trivial.

We would point out that our work is designed only to check the accounts. More importantly, you need accurate details of floor space and acreage if you are to manage your property effectively. We are aware of significant improvements in the management of the Council's asset base which has helped identify a number of assets that are suitable for disposal.

We concluded that the revised base data provides materially accurate valuations. We raised a control issue that the base data must be complete and accurate.

Accounting for Academy Schools

Last year we found that some Academy School transfer accounting did not follow the rules.

During 2013/14 the Council transferred 8 academies, recognising a loss on disposal of £63.2m. Capital expenditure amounting to £2.1m was spent on Academy schools in year and correctly accounted for as revenue expenditure funded from capital under statute (REFCUS).

We are pleased to confirm that the Council has applied the correct accounting treatment this year.

Equal Pay Provision

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

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

In 2013/4, £6m of Equal Pay claims were settled . A larger value of other known or potential claims remains unresolved.

The Council has considered the legal advice and other information and included a provision of £18.7m (£26m at 31 March 2013).

We have reviewed the documentation and calculations supporting this provision, including payments made during the year. £11.2m of the provision is supported by known cases that can be quantified with a high degree of certainty.

There are a number of other potential claims which are harder to quantify. The treatment of these claims requires judgement, and their remains risk that the value of the actual liability will differ from management's assumptions.

We are comfortable that the estimate made to cover second generation claims and any other claims is consistent with the information we have reviewed.

Given the inherent uncertainty in the estimate we are also seeking representation from the Section 151 Officer that the judgements taken have been made in good faith, and are the most appropriate given all the advice received. This is a standard audit procedure.

We have also requested formal confirmation from the Council's legal advisors that the proposed accounting treatment is consistent with the advice they have provided. This is also a standard audit procedure.

Subject to these confirmations we expect to conclude that the need for the provision is reasonable and meets relevant financial reporting standards and the value is materially accurate based on available information.

Implementation of Agresso

We discussed progress with management throughout the year and have been fully briefed on of progress and issues affecting the implementation.

As you know, there have been some delays and difficulties with the implementation, primarily in the payroll and payments modules. On balance, and in comparison with

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

These changes have been reflected in the Council's financial statements in Note 6 to the financial statements.

We are required to tell you about all misstatements we have identified that management have chosen not to amend the accounts for. We have not identified any such unadjusted misstatements.

similar implementations, these issues largely reflect the inevitable complexity of changing systems in a large organisation.

We have commented previously that the management of the implementation has been sound and believe that the Council is already starting to benefit from the introduction of Finance, Procurement and elements of the HR system modules.

We met with a number of individuals involved in managing the new system to ensure that our detailed audit plans were not impacted by the system issues.

We carried out IT general controls and concluded that access is sufficiently restricted to appropriate personnel; program access is reasonable; staff received suitable training for use of Agresso; and there has been a rigorous process undertaken for data migration.

We performed walkthrough testing of the processes and controls within the new ledger system for creditors, debtors and bank reconciliations and identified no issues.

We also performed additional audit testing to check that any old financial year invoices paid in the new year were correctly accrued for.

We are pleased to confirm that no issues were noted from the work performed.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the West Midlands Pension Fund. Your net pension liability at 31 March 2014 was £1,226 million (31 March 2013 - £1,300 million).

You rely on the work of an actuary in calculating these balances. Changes in the assumptions used by the scheme and the results of the triennial valuation have yielded a pension actuarial gain of £110 million in 2013/14 (£94 million loss in 2012/13).

We reviewed the reasonableness of the assumptions underlying the pension liability and no exceptions were noted to be outside our tolerable range.

Our letter of representation will ask you to confirm to us that you are satisfied with the assumptions being made in arriving at these judgements and estimates in the accounts.

We validated the data supplied to the actuary on which to base their calculations.

We have no issues to report in terms of the accuracy and the completeness of the data submitted to the actuary.

Changes to IAS 19: Employee Benefits (prior period adjustment)

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Council's financial statements in Note 6 to the financial statements.

We have no issues to report from our review of these amended disclosures.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. We are also required to report to you material amendments made to your draft accounts as a result of the audit.

We are pleased to report that our work has not identified any material errors in the draft accounts and there are no uncorrected misstatements.

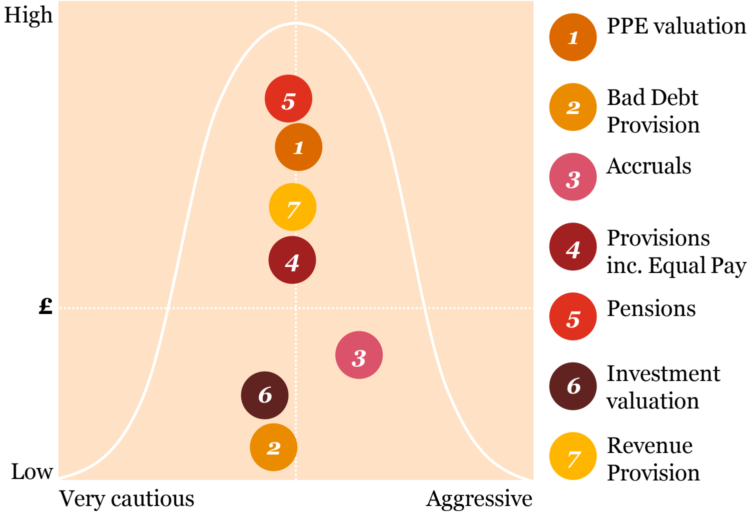
Significant accounting principles and policies

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

We have no issues to report.

Judgments and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. We outline below a summary of our view of the key accounting judgments applied by management:



In addition to valuations of property, plant and equipment and the pension liability which were discussed in the sections above; the following significant judgements and accounting estimates were used in the preparation of the financial statements:

- **Property, Plant and Equipment - Depreciation -** You charge depreciation based on an estimate of the Useful Economic Lives of your Property, Plant and Equipment (PPE). This involves a degree of estimation and impacts on the amount charged to the CIES (although there is no impact on the General Fund).
- **Bad Debt Provision** – Your Bad Debt Provision for sundry and collection fund debtors is calculated on the basis of age and an assessment of the potential recoverability. There is an inherent level of judgement involved in calculating these provisions. The bad debt provision at 31 March 2014 is £13.5 million, compared with £13.4 million as at 31 March 2013. We have reviewed the basis of calculation and identified no concern.

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

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

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

- **Accruals** - You raise accruals for income and expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met or income due which relates to the current year. This involves a degree of estimation. One accounting policy change made during the 2013/14 financial year is that 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. This was based on analysis carried out on the 2012/13 year end accruals which identified that the sum of income and expenditure accruals less than £10k amounted to a net expenditure impact of £2.1m which is immaterial to the accounts. Application of an accruals threshold is line with policies at other councils.
- **Provisions**: Provisions are liabilities of an uncertain timing or amount and therefore there is an inherent level of judgement to be applied. Your equal pay provision is your most significant provision and has been considered above. All provisions are assessed to ensure they are not understated. A new provision arising in year is the business rates appeals provision discussed separately below.
- **Business rates appeals provision**: As a result of the changes to Business Rates regulations, the Council is now required to make provisions for the cost of refunding ratepayers who successfully appeal against the rateable value of their property. A provision of £1.7m was estimated as at 31 March 2014 and included in the draft accounts. To arrive at this estimate, the Council engaged with a consultant recommended by CIPFA. We assessed the reasonableness of the key assumptions used by the consultant in determining the provision by analysing appeals history over the past 10 years as well as the outcome of appeals since the 31 March 2014 and determined that the assumptions applied were appropriate. Of the 406 outstanding appeals at the 31 March 2014, 239 were either settled or withdrawn since the year end revealing a £202k under-provision on these appeals at the 31 March 2014. In addition, 64 new appeals were lodged since the year- end which, if known about at the 31 March 2014, would have increased the provision by £120k. Neither of these outcomes require an audit adjustment as they fall below our clearly trivial reporting de minimis.
- **Investment valuation** - Consistent with prior periods you have estimated the value of the Council's investment in Birmingham Airport based on information provided by partners and valuation experts The estimated fair value for the Council's investment at 31 March 2014 is £131k higher than the valuation held in the Council's balance sheet. The Council have chosen not to amend the balance sheet value.
- **Minimum Revenue Provision –** For 2013/14 you have determined a prudent method of calculating MRP that allows you to redeem your debt liability over a period which is expected to be equal to, or shorter than the period over which the capital expenditure is estimated to provide benefits. There is a significant degree of estimation involved and your method of calculation is relatively prudent.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 1.

Financial standing

You identified no material uncertainties related to events and conditions that may cast significant doubt on the Authorities' ability to continue as a going concern and that in overall terms there are sufficient resources available to meet your commitments for at least a 12-month period after the projected date of our audit opinion. We concluded that this consideration is appropriate. In the section 'Economy, efficiency and effectiveness' we set out in more detail our conclusions on your medium term financial resilience.

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

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

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

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

To confirm completeness we performed a range of additional procedures to identify potential related party transactions.

We did not identify any matters during the course of our work.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Council that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Council

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

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

Employment of PricewaterhouseCoopers staff by the Council

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

Business relationships

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

Services provided to the Council

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Council which is set out below; that may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

Support provided by PwC	Value (£)	Threats to independence and safeguards in place
Certification of claims and returns	44,200	**Self-review threat:** The audit team conduct the grant certification and this has arisen due to our appointment as external auditors. There is no self-review threat as we certify management completed grant returns and claims and our audit is not reliant upon the outcome of these certification claims. **Self-interest threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat. **Management threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat. **Familiarity threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.
Decent Homes backlog grant certification	2,500	**Self-review threat:** There is no self-review threat as we certify management completed grant returns and claims and our audit is not reliant upon the outcome of these certification claims. **Self-interest threat:** As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat. **Management threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat. **Familiarity threat:** Work complements our external audit appointment and does not present a familiarity threat. **Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are

		reported to management, and no process improvement recommendations are made.
FutureSpace: Final Business Case & Critical Friend	61,662	**Self-review threat:** The work is not required to support an opinion on the Council's accounts, policies and related notes for 2013/14 and thereafter is not dependent in any way on the work outlined in the scope of the proposed work. PwC's audit assessment of the Council's use of resources will not be affected by PwC carrying out this work. The decision on whether to progress to implementation and fully resource the FutureSpaces programme team will rest solely with the Council. **Self-interest threat:** PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature. **Management threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat. **Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work. **Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.
Two stage gate reviews for the 'Future Works' programme	23,713	**Self-review threat:** The work has been conducted by a separate engagement team who have no involvement in the audit of the financial statements. There is no self review threat as the results of the reviews were not used by the audit team as they did not impact on the financial statements. **Self-interest threat:** PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature. **Management threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat. **Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work. **Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.

Tax helpline	3,000	**Self-review threat:** The work has been conducted by a fully independent tax team who had no involvement in the audit of the financial statements. There is no self review threat as the tax team did not prepare any deliverables which were subject to audit. **Self-interest threat:** PwC has no financial or other interest in the conclusions of this work. Fees for this work and the audit are not material to PwC or the individuals involved. The fee is not contingent in nature. **Management threat:** PwC is not required to take any decisions on behalf of management as part of this work. **Advocacy threat:** We have not acted for, or alongside, management and have therefore concluded that this work does not pose an advocacy threat. **Familiarity threat:** Neither the audit engagement leader nor any member of the audit team were involved in this work. **Intimidation threat:** We have concluded that this work does not pose an intimidation threat as we have not experienced any undue pressure from officers or councillors and the work will be conducted in accordance with advised agreed upon protocols, and there is no need for judgement. All findings are reported to management, and no process improvement recommendations are made.

Fees

The analysis of our audit fees for the year ended 31 March 2014 is included on page 27 and our non-audit fees above. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

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

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

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

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

Page 268

As part of our value for money work we reviewed your Medium Term Financial Strategy.

Our detailed findings will be reported to you in a separate report on Financial Resilience. We have summarised our findings on the following pages.

Conclusion

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

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

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

Annual Governance Statement

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

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.

We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

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

The Audit Commission guidance includes two criteria:

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

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We anticipate issuing an unqualified value for money conclusion.

In our planning risk assessment we identified that although the Council had proper arrangements for challenging how it secures economy, efficiency and effectiveness and for securing financial resilience in the previous year we did identify a number of concerns and risks relating to the Council's ability to continue to demonstrate financial resilience. We therefore developed a detailed programme of work that placed greater emphasis on addressing the financial resilience criterion.

We have prepared a more detailed report on Financial Resilience for the Strategic Director Delivery which we intend to present to this Committee in the September 2014 meeting. The 'conclusions' section of the report is set out below.

Financial Resilience conclusions

- **There are adequate Financial Planning, Governance and Control arrangements in place to secure financial resilience.**
- **We have not identified any material uncertainties relating to events and conditions that may cast significant doubt on the Council's ability to continue to operate for the foreseeable future.**
- **The use of the going concern assumption is appropriate in the preparation and presentation of the financial statements.**
- **The Council's systems and processes for managing effectively its financial risks , and to secure a stable financial position, appear to be operating adequately and have put the Council in a position to set a balanced budget for 2014/15 and are well placed to set a balanced budget for 2015/16.**
- **The longer term financial challenge has reduced significantly over the year due to pro-active financial planning and effective collaboration between Officers and Councillors through new and existing governance arrangements. Whilst there remains a budget gap in the later years of the MTFS this has reduced significantly to less than £30m from £123m at the start of 2014 and the Council has a plan and a process to continue to identify further savings.**
- **We intend to issue an unqualified opinion on your VFM conclusion.**

This view is informed by the Council's processes, financial position and further opportunities although the Council's financial resilience remains at risk if not managed effectively.

Processes:

We have considered the Council's track record in:

- setting realistic budgets;
- delivering services within budget;
- delivering planned saving targets; and
- maintaining adequate levels of reserve balances.

You have been through a thorough risk assessment process using thematic review and consideration of statutory and discretionary services to identify a significant number of saving delivery plans to support the majority of the gap identified by the MTFS.

You have produced a sound MTFS with appropriate assumptions and have updated the details behind it in year so that by October 2014 you will have identified a significant proportion of the savings required by the MTFS.
You have a track record of historical performance that delivers against savings plans.

You have a plan set out to deliver a balanced budget through due process and consultation, before the commencement of the financial year.

You have a plan to undertake appropriate consultation, identifying further savings plans and integration with key stakeholders to deliver a budget plan for the two years 2015/16 and 2016/17.

Effective collaborative working between Officers and Councillors has ensured that there is a broad consensus about the need for change and there is a growing body of tangible evidence of Councillors considering previously unpalatable options.

Arrangements are in place to produce detailed balanced budgets and savings plans and undertake robust review during the year at management and Cabinet, and act quickly to resolve budgetary gaps.

Financial position:

The Council has:

- a strong net asset position of £398 million (pre-audit);
- demonstrated a continued ability to generate strong operating cash flows;
- a positive cash balance at year end of £4.1 million (pre-audit) and sufficient funds to meet forecast demand over the year;
- a reasonable level of reserves (general and earmarked) when compared with similar authorities;
- a generally good track record in recording surpluses and achieving financial targets, having identified savings totalling significantly over £100 million over the last five financial years and demonstrating solid financial management in achieving this;
- a strong 30-year HRA Business Plan that is not expected to draw on general fund reserves;
- a balance of £5.5m in the Efficiency Reserve;
- agreed a strategy to identify £25 million of savings for 2015/16 by October 2014 plus a further £35 million for the medium term period;
- delivered £7.6 million of the 2014/15 savings target of £21.4 million with a further £13.4 million having been estimated with a high or medium level of confidence and with acceleration and identification of 2014/15 savings proposals equating to £1.7 million; and

- a forecast outturn for 2014/15 of within 0.25% of the general fund budget requirement (£0.6 million) at the time of drafting this report.

Further opportunities:

Significant uncertainties exist in the current climate and there remain risks associated with changes in government funding and the budget consultation process. It is important therefore that the Council has other options available to it to secure financial resilience, beyond those that are currently being considered. Should the planned savings not materialise the Council could consider options including:

1) The ability to borrow: Under section 3(1) of the Local Government Act 2003, the Council must approve an overall borrowing limit before the beginning of each financial year. The Council is within this limit so may conclude that is has the opportunity to borrow to cover budgetary short falls in the short term.
2) The Council had opening cash reserves, General Fund reserves of £27m and earmarked reserves of £27.6m. These reserves could be used in the short term to mitigate any budgetary gaps.
3) The Council has developed a disposal programme which offers a significant opportunity to secure capital receipts in coming years.
4) The Council has historically evidenced an ability to identify other savings opportunities to negate budgetary gaps identified during the year, caused by schemes that have not delivered.

Given the above, there are alternative arrangements in place to negate against some short term budgetary shortfalls against the Councils plans. This provides further information that there are suitable arrangements in place regarding securing economy, efficiency and effectiveness with regards to financial resilience.

Risks remaining:

Despite being able to conclude satisfactorily that the Council's going concern assumption is appropriate and that we do not require a revision to our value for money conclusion, our work on financial standing has identified a number of areas of concern that put the Council's financial resilience at risk if not managed effectively.

To continue to demonstrate that the Council has sufficient resources available to meet its commitments in the short term it is important that the Council:

- Focuses on translating the £10.4 million of 2014/15 savings that are estimated with a high level of confidence and the £3 million of medium level savings into realised, measurable savings and continues to identify opportunities to deliver the remaining £0.4 million from the initial savings target. Where savings are not likely to be met these expected variances should be reported to Councillors.
- Continues to monitor and report achievement of savings against target by scheme and not just report either exceptions or, has been the case at times historically, achievement of savings by Service or Directorate with no reference to the individual savings schemes approved by Councillors.

- Continues to identify one-off savings during 2014/15 or bring forward future savings scheme to address the currently projected over spend in, and reduce the call on, the General Fund.
- Ensures that the cost pressures in Looked After Children are actively monitored and variances are reported early and accurately.
- Continues to develop robust and granular plans to ensure the delivery of the £25 million savings plans required to set a balanced budget in 2015/16. The more detailed these plans and the more accountability can be allocated the more likely it is that savings will materialise.
- Quantifies the remaining savings target for the period of the MTFS. The latest reported estimate was £35m but events have been identified that could affect the budget gap in the MTFS both positively or negatively. Once Councillors have been provided with information on the scale of the challenge, a plan must be finalised to set out how further savings will be identified and over what time period. We understand that advice has been received to tackle the 2016-2019 savings element in stages and this seems reasonable, but the plan to meet these stages must be clear and robust.
- Continues to take a radical approach to service provision. Future reductions to local government funding above and beyond those already known about are conceivable; a significant proportion of the savings remain politically sensitive and may experience difficulties at consultation stage. It would be advisable to identify and approve savings that exceed the known savings target to allow for removal of schemes, slippage and unforeseen costs relating to demand.
- Keeps it assumptions and estimates under review. Councils have an overarching responsibility to make prudent estimates but the Council should continue to ensure that estimates are appropriate and that pockets of contingency do not exist.

Internal controls

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

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

Page 273

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

One significant deficiency in internal control was identified through our work which is detailed below. There were no other matters that, in our professional judgement, we believe we should bring to your attention.

Summary of significant internal control deficiencies

Deficiency	Recommendation
Maintenance of up to date and accurate base data records for property valuations Land values are determined in accordance with site acreage and where buildings are of a specialised nature and fair value is based on depreciated replacement cost values are calculated based on gross internal floor areas. Accordingly, it is important that this data is complete and accurate at each balance sheet date. Consistent with our finding in the previous financial year the underlying data is not always accurate which may result in over- or under-statement of the balance sheet. This is particularly relevant to schools, because work is regularly being carried out that changes the size of the buildings, but the issue applies to all asset types.	There is a need for the property and asset management teams to carry out a data validation exercise before every valuation and again at the end of the financial year to ensure that any increases or reductions in and land or building size are recorded on a timely basis. This may require consultation with other relevant departments within the Council who hold up to date information on the Council's assets. **We understand that management has put in place a new control system as a result of our findings.**

Risk of fraud

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

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

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

Page 274

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

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

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

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

Page 275

We included two fraud related risks in our audit plan. These risks along with our findings in these areas are set out earlier in this report in the Audit Approach section.

We identified no issues to report to you in relation to our fraud considerations.

Our fee proposals were included in our 2013/14 Audit Plan which we reported to you in March 2014.

The table here provides and update to those fee proposals.

Fees update

Fees update for 2013/14

We reported our fee proposals in our plan in March 2014. Our anticipated final fees as are follows:

	2013/14 outturn (£)	2013/14 fee proposal (£)
Audit work performed under the Code of Audit Practice - Statement of Accounts - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources - Whole of Government Accounts	251,100	251,100
Pension Fund audit work	48,618	48,618
Certification of Claims and Returns - Note 1	44,200	44,200
Sub – Total Audit Code Work	**343,918**	**343,918**
Additional local risk based audit work – Note 2	34,000	34,000
Non-audit services – Note 3	90,875	83,000
Total Fees	**468,793**	**460,918**

Note 1 - Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Certification Report to Management in relation to 2013/14 grants.

Note 2 – As part of our 2013/14 audit planning process we tailored a programme of audit work in response to the additional local audit risks relevant to this Council for the period in question. As set out in our audit plan additional fees required to cover the additional work covering:

- Property, Plant and Equipment Valuation
- Equal Pay
- Savings Plans and financial resilience

- System changes and redesign
- Accounting policy changes

We are in the process of seeking approval from the Audit Commission for these fees and we except to able to advise you of the final fee in our Annual Audit Letter.

Note 3 - In addition to the statutory services provided as your Appointed Auditor, PwC has, during the year, provided non-audit services which fell outside of the Code of Audit Practice. These services, and the associated fees (excluding VAT), are detailed in the non-audit fees section above on pages 16 to 18.

Appendices

Appendix 1: Letter of representation

There are a number of matters on which we are required to ask for a written representation. A draft letter of representation is included in this appendix:

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Dear Sirs

Representation letter – audit of Wolverhampton City Council's (the Council) statement of accounts for the year ended 31 March 2014

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Council give a true and fair view of the affairs of the Council as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

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

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

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

Page 280

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions relating to the 2013/14 financial year have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Council in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the Council's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Council and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and
  - unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

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

Fraud and non-compliance with laws and regulations

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

I have disclosed to you:

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

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

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

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

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

Related party transactions

I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Council and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the Council participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Council have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Council queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Council's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Council or any associated company for whose taxation liabilities the Council may be responsible.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.

Pension fund registered status

I confirm that the West Midlands Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the Council's and the group's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

The provision of £18.7 million that we have included in our accounts for the potential liability for equal pay and back pay claims complies with International Accounting Standard (IAS) 37 and is supported, in good faith, by the external legal advice received.

This represents our best estimate of the most likely future costs to the Council and we have not received any other additional or contradictory advice that has not been shared with you.

The Council has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

I confirm the Council has used appropriate measurement processes, including related assumptions, in determining the accounting estimate for the provision for business rates appeals in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and disclosures related to this provision are complete and appropriate under the Code.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Assets and liabilities

- The Council has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- The Council has satisfactory title to all assets and there are no liens or encumbrances on the Council's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Investments

I confirm that all significant assumptions made in relation to fair value measurement and disclosures are reasonable and appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council and the group to the fair value measurements or disclosures.

I confirm that we believe the inclusion of the Council's investment in Birmingham Airport Holdings Ltd at £18.6 million is appropriate because:

- this materially reflects the latest valuation of the Ordinary Shares and preference shares provided as at the balance sheet date as provided by Solihull Council and BDO
- there remains in place a side agreement which restricts the sale of shares by all seven stake-holding councils and therefore, whilst the valuation given provides a best estimate of a price that could be achieved on the open market, the restrictions mean that the open market value (OMV) is always likely to overstate the value that any Council would actually be willing to pay. This is deemed particularly significant in the current economic climate when there is unlikely to be any Council with sufficient spare resources to purchase an additional share in the Airport - especially at an OMV;
- the terms of the work had been reviewed by all relevant Appointed Auditors;
- the methods followed are reasonable given the requirements of the Code; and

- the findings are fed by a number of factors and because many of these are judgements, every valuer is bound to make different assumptions but the assumptions taken do not appear unreasonable.

Financial Instruments

- All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- Where hedging relationships have been designated as either firm commitments or highly probable forecast transactions, I confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Using the work of experts

I agree with the findings of Solihull Council and BDO experts in evaluating the Airport Valuation, regarding their valuation of our share of Birmingham Airport Holdings Ltd and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

I also agree with the findings of Neil Benn, expert in evaluating the business rates appeals provision and have adequately considered the competence and capabilities of the expert in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Council did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the expert.

Valuation of Property, Plant and Equipment

I have considered indicators of impairment for our Property, Plant and Equipment asset base since the date of the most recent valuation and am satisfied that there are no indicators that the Council's asset base has been materially impaired.

I am satisfied that the gross internal floor areas and land acreage supplied to our internal valuation experts is complete, materially accurate and up to date.

Depreciation of housing stock

The Council has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of council dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

Completeness of Fixed Asset records on the General Ledger

I am satisfied that the general ledger system is complete and that there are no material differences between the assets recorded on the Property Services Database and those recorded on the general ledger system (FMIS), that is used to populate the financial statements.

Minimum Revenue Provision (MRP)

I am satisfied that the methods we applied to determine an annual revenue provision, and for splitting interest cost between the HRA and General Fund are appropriate, prudent and compliant with the requirements of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended by Statutory Instrument 2008 no. 414 s4).

Deficiencies in internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Subsequent events

Other than those already disclosed, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Accounting for Academy Schools

All schools that have transferred to Academy status have been removed from the appropriate balance sheet. All current school assets for which the future use is unknown have been valued at the most appropriate market value. No decisions have been taken about the future use of school assets that have not been reflected in their valuation.

As minuted by the Council at its Audit Committee meeting on 22 September 2014

....

Assistant Director Finance (Section 151 Officer)

For and on behalf of Wolverhampton City Council

Date ....

Appendix – Related Parties

In addition to the disclosed related party transactions within Note 8 to the 2013/14 Statement of Accounts, I confirm that the following is a complete list of the Authority's related parties:

- Base 25
- Gazebo Theatre in Education
- Wolverhampton Network Consortium
- Local Information United Ltd
- Kingswood Trust
- The City of Wolverhampton Regenerating Buildings Preservation Trust
- WV One (Wolverhampton) Ltd.
- B C S Associates Limited
- Black Country Care Services Limited
- Friends of Bilston North (dissolved 25/02/2014)
- Wolverhampton Network Consortium
- Sewa Centre Ltd.
- Central Learning Partnership Trust
- The Black Country Living Museum Trust
- Wolverhampton Community Radio Training
- Ujama Limited
- Richmere Court Residents
- Woodthorne Builders Limited
- Local Government Association (Improvement & Development Agency IDEA)
- National Trust
- Association of Local Democracy Agencies (ALDA)
- West Midlands Concert Band
- English Heritage
- Association of Teachers and Lecturers (ATL) Union
- Abbey National Group Pension Fund
- Alstom Transport
- AMA Training Services
- Association of Black Country Authorities (ABCA)
- Association of Labour Councillors
- Bilston Craft Gallery Textile Group
- Birmingham Art Circle
- Black Country Consortium

- Bridgnorth Aluminium Ltd
- Care in Bathing Ltd
- Confederation of Passenger Transport
- Community Trade Union
- Complete Sound Services Ltd
- Conservative Party
- Co-operative Party
- De Montfort University
- Diocese of Lichfield
- Envy Us
- Ettingshall Ward Labour Party
- Gambling Commission
- GMB Union
- Goldthorn Primary School
- Green Issues Communique
- H S Bagri
- Heritage Centre
- Institute of Advanced Motorists
- JSB Properties
- Labour Party
- Land Rover
- Low Hill Labour Party
- Midlands Textile Forum
- Money Advice Service
- National Express
- Northwood Primary School
- Oxley Labour Party
- Parliamentary Advisory Council for Transport Safety (PACTS)
- Penn and Merry Hill LNP
- Phil Bateman Consultancy
- PSU Designs Ltd
- Quattro Group (UK) Ltd
- Royal Birmingham Society of Artists
- Soroptimist International (Freemasons)
- St Peter's Ward Labour Party
- TFML (Education & Management Consultancy)
- Tettenhal Wightwick Conservative Association
- Textile Society
- Thorpe Thompson

- Unite Union
- Unison
- Wednesfield North Labour Party
- West Midlands Joint Committee
- West Midlands Planning and Transportation Committee
- West Midlands Police and Crime Panel
- West Midlands Road Safety Partnership (Road Safety GB formerly LARSOA)
- Wolverhampton Conservative Association
- Wolverhampton Economy Partnership
- Wolverhampton Executive Partnership Board
- Wolverhampton Labour Group
- Wolverhampton South East Labour Party
- Wolverhampton South East Liberal Democrats
- Woodthorne Builders Ltd

Agenda Item No: **9**

Audit Committee

22 September 2014

Report title	Corporate Risk Register and Corporate Assurance Map	
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources	
Accountable director	Keith Ireland, Delivery	
Originating service	Audit	
Accountable employee(s)	Peter Farrow Tel Email Narinder Phagura Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk Strategic Risk Manager 01902 554580 narinder.phagura@wolverhampton.gov.uk
Report has been considered by	Strategic Executive Board	28 August 2014

Recommendations for noting:

The Committee is asked to note:

1. The latest summary of the council's corporate risk register.

2. The main sources of assurance available to the Council against its corporate risks.

1.0 Purpose

1.1 To keep members of the Audit Committee aware of the key risks the Council faces, and how it can gain assurance that these risks are being mitigated.

2.0 Background

2.1 The Council is no different to any organisation, and will always face risks in achieving its objectives. Sound risk management can be seen as the clear identification and management of such risks to an acceptable level.

2.2 Following a refresh of the corporate risks earlier this year, the new corporate risk register report was presented to the Committee in June 2014. Since this time we have met with the risk owners in order to review and update the risks and risk management action plans.

2.3 The corporate risk register does not include all of the risks that the Council faces. It represents the most significant risks that could potentially impact on the achievement of the corporate priorities. Other risks are captured within operational, programme, project or partnership risk registers in line with the Council's corporate risk management framework and strategy.

2.4 A summary of the corporate risk register is included at appendix A of this report which sets out the status of the corporate risks as at August 2014. These risks are reviewed on an ongoing basis and can be influenced by both external and internal factors and as such, may fluctuate over time.

2.5 Appendix B provides a summary of the Council's corporate assurance map which follows the three lines of defence model (shown below). The assurance map details where the Committee can gain assurance against the corporate risks. This is a live document and is updated alongside the monitoring and reviewing of the corporate risk register.

The three lines of defence model:

First line	Second line	Third line
The first level of the control environment is the business operations which perform day to day risk management activity	Oversight functions such as Finance, HR and Risk Management set directions, define policy and provide assurance	Internal and external audit are the third line of defence, offering **independent** challenge to the levels of assurance provided by business operations and oversight functions

3.0 Progress, options, discussion

3.1 The corporate risk register will be updated as required, and presented at approximately quarterly intervals to the Committee. The Committee will also be given the opportunity to 'call in' individual risks for further review.

4.0 Financial implications

4.1 There are no financial implications associated with the recommendation in this report as Councillors are only requested to note the corporate risk register summary. Financial implications however, may arise from the implementation of strategies employed to mitigate individual corporate risks, but these will be evaluated and reported separately if required. (GE/05092014/E)

5.0 Legal implications

5.1 Although there may be some legal implications arising from the implementation of the strategies employed to mitigate individual corporate risks, there are no direct legal implications arising from this report.

6.0 Equalities implications

6.1 Although there may be equalities implications arising from the implementation of the strategies employed to mitigate individual corporate risks, there are no direct equalities implications arising from this report.

7.0 Environmental implications

7.1 Although there may be some environmental implications arising from the implementation of the strategies employed to mitigate individual corporate risks, there are no direct environmental implications arising from this report.

8.0 Human resources implications

8.1 Although there may be some human resource implications arising from the implementation of the strategies employed to mitigate individual corporate risks, there are no direct human resource implications arising from this report.

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations made in this report.

10.0 Schedule of background papers

10.1 None

This page is intentionally left blank

Wolverhampton City Council

Appendix A

Profile of current corporate risks

Red	1, 2, 3, 4, 7, 8, 10, 11, 12, 14
Amber	5, 6, 9, 15, 16

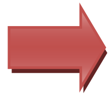
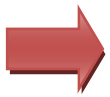
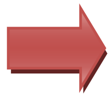
Summary Corporate Risk Register @ August 2014

Corporate priorities	• Encouraging new business	• Empowering People and Communities	• Re-Invigorating the City	• Confident, Capable Council

The following are the current **red** corporate risks the Council faces in delivering its corporate priorities

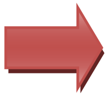
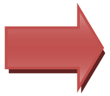
Risk ref	Risk title and description	Previous score (June 2014)	Current score (August 2014)	Movement	Target score and date
1 01/14	**Looked After Children (LAC)** If the number of LAC is not reduced this may result in an increase in costs, budget overspends and an increased demand on children's services. Risk owner: Sarah Norman Cabinet Member: Cllr Val Gibson	20 **Red**	20 **Red**		15 **Red** April 2015
2 01/14	**Skills for Work** If the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities available resulting in high rates of unemployment and increased demand on Council services. Risk owner: Tim Johnson Cabinet Member: Cllr Phil Page	20 **Red**	20 **Red**		15 **Red** March 2015

Risk ref	Risk title and description	Previous score (June 2014)	Current score (August 2014)	Movement	Target score and date
3 01/14	**Information Governance (IG)** If the Council does not put in place appropriate policies, procedures and technologies to ensure: • that the handling and protection of its data is undertaken in a secure manner and consistent with the provision of the Data Protection Act 1998; • compliance with the Freedom of Information Act and Environmental Information Regulations then it may be subject to regulatory action, financial penalties, reputational damage and the loss of confidential information. Risk owner: Keith Ireland Cabinet Member: Cllr Paul Sweet	16 **Red**	16 **Red**		12 **Amber** From August 2014 to March 2015
4 01/14	**Medium Term Financial Strategy** If the Council is unable to agree and operate within its medium term financial strategy (MTFS) this may exhaust reserves, result in the potential loss of democratic control and the inability of the Council to deliver essential services and discharge its statutory duties. Risk owner: Simon Warren Cabinet Member: Cllr Andrew Johnson	15 **Red**	15 **Red**		10 **Amber** March 2015
7 01/14	**Safeguarding** If the Council's safeguarding procedures and quality assurance processes are not consistently and effectively implemented then it will fail to safeguard children and vulnerable adults and lead to reputational damage. Risk owner: Sarah Norman Cabinet Member: Cllr Val Gibson	15 **Red**	15 **Red**		10 **Amber** Next Ofsted inspection
8 01/14	**Business Continuity Management** Failure to develop, exercise and review plans and capabilities that seek to maintain the continuity of critical functions in the event of an emergency that disrupts the delivery of Council services. Risk owner: Ros Jervis Cabinet Member: Cllr Andrew Johnson	15 **Red**	15 **Red**		10 **Amber** March 2015

Risk ref	Risk title and description	Previous score (June 2014)	Current score (August 2014)	Movement	Target score and date
10 01/14	**Economic Inclusion** If the Council and its partners do not work effectively together to tackle the root causes of poverty in the City then demand for Council services will continue to increase. Risk owner: Keren Jones Cabinet Member: Cllr Peter Bilson, Cllr Phil Page and Cll Elias Mattu	16 **Red**	16 **Red**		12 **Amber** June 2015
11 01/14	**The Care Act** If the Council does not have robust plans in place to implement the Care Act including: • appropriate governance arrangements, • appropriate project management arrangements • sufficient financial resources • sufficent workforce capability and capacity • effective information systems then it will fail to meet its new responsibilities and discharge its statutory obligations. Risk owner: Tony Ivko Cabinet Member: Cllr Steve Evans	12 **Amber** tbc	15 **Red**		10 **Amber** April 2015
12 01/14	**Better Care Fund (BCF)** If the Council and its partners fail to deliver the improved outcomes required by the Better Care Fund, demand on acute services will not be reduced, the reward money will not be received and the Council will not receive the additional resources promised by the Better Care Fund. Risk owner: Sarah Norman Cabinet Member: Cllr Sandra Samuels	15 **Red**	15 **Red**		10 **Amber** October 2015
14 01/14	**School Improvement** If the Council does not provide effective support, challenge and appropriate intervention to raise standards in schools, then the Council and these schools are at risk of underperforming, receiving inadequate Ofsted judgements and a potential loss of control and influence. Risk owner: Tim Johnson Cabinet Member: Cllr Phil Page	15 **Red**	15 **Red**		10 **Amber** September 2014

The following are the amber corporate risks the Council faces in delivering its corporate priorities.

Risk ref	Risk title and description	Previous score (June 2014)	Current score (August 2014)	Movement	Target score and date
5 01/14	**FutureWorks** If the Agresso system does not perform as expected then there will be a prolonged need to maintain the old system resulting in inefficiencies in service delivery; unplanned maintenance costs and delays in planned savings materialising. Risk owner: Keith Ireland Cabinet Member: Cllr Paul Sweet	10 Amber	10 Amber	→	5 Amber December 2014
6 01/14	**Compliance with Public Services Network (PSN)** If the Council fails to achieve the required technology controls required for connection to PSN, and other similar information security regimes, then it will experience significant interruption to the delivery of its services. Risk owner: Keith Ireland Cabinet Member: Cllr Andrew Johnson	5 Amber	5 Amber	→	5 Amber Achieved
8 01/14	**City Centre Regeneration** If the city centre regeneration programme is not effectively managed in terms of project timings, costs and scope, then it will be unable to maximise opportunities including: • the attraction of private sector investment • the creation of space to accommodate new businesses and economic growth • the enhancement and creation of visitor attractions • the creation of well paid employment • retention of skilled workers • the creation of residential opportunities • a functioning city centre offer that serves the residents of the City • increased prosperity and • a reduced demand on Council services Risk owner: Tim Johnson Cabinet Member: Cllr Peter Bilson	12 Amber	8 Amber	↓	8 Amber Achieved 2014

Risk ref	Risk title and description	Previous score (June 2014)	Current score (August 2014)	Movement	Target score and date
15 01/14	**Emergency Planning** Failure to develop, exercise and review plans and capabilities for preventing, reducing, controlling or mitigating the effects of emergencies in both the response and recovery phases of major a incident. Risk owner: Ros Jervis Cabinet Member: Cllr Andrew Johnson	9 **Amber**	9 **Amber**		6 **Amber** April 2015
16 01/14	**Equal Pay** Significant equal pay liabilities have been dealt with over recent years. However, equal pay will remain a potentially significant risk until: • the second generation claims, from trade union members, have been dealt with. • six years after the implementation of single status, until that time “Abdulla” type claims can still be brought. Risk owner: Keith Ireland Cabinet Member: Cllr Paul Sweet	12 **Amber**	12 **Amber**		8 **Amber** April 2015

This page is intentionally left blank

Wolverhampton City Council

Appendix B

Corporate Assurance Map – August 2014

Risk Ref	Risk Title and Description	Current Score	Types of Assurance: External/ Independent (Third Line of Defence)	Types of Assurance: Risk and Compliance (Second Line of Defence)	Types of Assurance: Operational and Management (First Line of Defence)	Gaps in Assurance / Risk Exposure
1	**Looked After Children (LAC)** If the number of LAC is not reduced this may result in an increase in costs, budget overspends and an increased demand on children's services.	20 red	Audit by Dartington Research Unit into LAC 2013 Performance indicator- number of LAC per 10,000 population Internal audit review 2014/15- Placements and LAC Internal audit review 2014/15- Independent reviewing officer for LAC	Scrutiny review of LAC Feb 2014 Monthly programme reports to Corporate Programme Office	Reports to LAC Budget Monitoring Group (every 2 months) Controls Assurance Statement	Present assurances sources and will continue to provide assurance regarding the changes in number of LAC and progress made against the Families First programme.
2	**Skills for Work** If the city residents do not have the appropriate skills that employers require then they will be unable to access the jobs and opportunities available resulting in high rates of unemployment and increased demand on council services.	20 red	Internal audit review: Employment opportunities 2013/14 Black country performance management framework Internal audit review 2014/15 – City of Wolverhampton College- Learners with learning difficulties post 16	Enterprise and Business Scrutiny Panel review of "employability and skills" September 2014 Performance indicator - % of residents with no qualification Performance indicator - number of work experience/ volunteering/ apprenticeships opportunities provided	Reports to the Wolverhampton Skills and Employment Board Controls Assurance Statement	Performance indicators will provide assurance over the effectiveness of the measures in place to manage this long term risk.
3	**Information Governance** If the council does not put in place appropriate policies, procedures and technologies to ensure: • that the handling and protection of its data is undertaken in a secure manner and consistent with the provision of the Data Protection Act 1998; • compliance with the Freedom of Information Act and Environmental Information risk Act then it may be subject to regulatory action, financial penalties, reputational damage and the loss of confidential information.	16 red	Information Commissioner audit (October 2011, July 2012) Internal audit review: Management of information sharing agreements 2013/14 Internal audit review 2014/15- Electronic social care record Internal audit review 2014/15 – Compliance support Internal audit review 2014/15 – Information sharing agreements Internal audit review 2014/15 – Protective marking compliance	Information risk register and reports to IG Board Report to Cabinet and Scrutiny Board March 2014 Report to SEB 27 March 2014 Performance indicators reported to Cabinet- Number of data breaches Performance indicator - % of Freedom of Information (FOI) requests met within timescales Performance indicator- % of Subject Access Requests (SAR) met within timescales	Senior Risk Information Officer briefings to Strategic Executive Board Controls Assurance Statements	Ongoing audits, performance against FOI and SAR requests and information incidence logs will continue to provide assurance over this risk.

Risk Ref	Risk Title and Description	Current Score	Types of Assurance External/ Independent (Third Line of Defence)	Types of Assurance Risk and Compliance (Second Line of Defence)	Types of Assurance Operational and Management (First Line of Defence)	Gaps in Assurance / Risk Exposure
4	**Medium Term Financial Strategy** If the council is unable to agree and operate within its medium term financial strategy (MTFS) this may result in insufficient reserves to remain solvent, the potential loss of democratic control and the inability of the council to deliver essential services and discharge its statutory duties.	15 red	Independent review of process for MTFS and budget- May 2014 PwC report: Report to those charged with governance (ISA 260) September 2013 Internal Audit review Budgetary Control 2013/14 PwC report: Report to those charged with governance (ISA 260) September 2014	MTFS risk register Reports to Budget Working Party Reports to Cabinet June 2014 and February 2014	Management accounts Controls Assurance Statements	Ongoing internal and external reviews will continue to provide assurances over the achievement of efficiency savings and the resilience of the MTFS.
5	**FutureWorks** If the Agresso system does not perform as expected then there will be a prolonged need to maintain the old system resulting in inefficiencies in service delivery; unplanned maintenance costs and delays in planned savings materialising.	10 amber	PwC stage gate review- January 2014 Internal audit report- data migration and reconciliation January 2014 Internal audit review: Detailed design and phase 2013/14 Internal audit update reports to Programme Board and audit Committee Internal audit review 2014/15 – Post implementation review Audit Committee review- September 2014	Programme risk register Weekly reports to Programme Board	Progress reports to SEB July 2014 Controls Assurance Statement	Further assurances required regarding full implementation of system and adequacy of risk mitigation strategies.
6	**Compliance with Public Sector Network (PSN)** If the council fails to achieve the required technology controls required for connection to PSN, and other similar information security regimes, then it will experience significant interruption to the delivery of its services.	5 amber	PSN healthcheck by CLAS Consultancy at Cabinet Office 2014 PSN healthcheck by CLAS Consultancy at Cabinet Office 2013	Reports to Information Governance Board	Controls Assurance Statement Briefings to SEB	No further assurances required at present.
7	**Safeguarding** If the Council's safeguarding procedures and quality assurance processes are not consistently and effectively implemented then it will fail to safeguard children and vulnerable adults and lead to reputational damage.	15 red	Ofsted inspection safeguarding services- June 2011 Peer review – Local safeguarding Children's board 2013 LGA peer review- Local safeguarding adults board	Reports to safeguarding boards Annual reports from adults and children's local safeguarding boards National and local Wolverhampton performance	Children's safeguarding self - assessment- September 2014 Adults safeguarding self-assessment – September 2014 Controls Assurance Statement	Up to date assurance from Ofsted is required to confirm risk is being effectively managed.

Page 302

Risk Ref	Risk Title and Description	Current Score	Types of Assurance External/ Independent (Third Line of Defence)	Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Gaps in Assurance / Risk Exposure
			November 2013 West Midlands Association of Directors of Adult Social Services peer review – Adult safeguarding September 2014 Internal audit review 2014/15- Disability team safeguarding procedures Internal audit review 2014/15- safeguarding for children and adults	indicators in relation to social care		
8	**Business Continuity Management** Failure to develop, exercise and review plans and capabilities that seek to maintain the continuity of critical functions in the event of an emergency that disrupts the delivery of Council services.	**15 red**	Internal Audit Review: Resilience Management and BCP Aug 2013 Follow up of Internal Audit recommendations Jan 2014 Internal audit review 2014/15 – Resilience management	Report from Wolverhampton Resilience Board to SEB and C3 Scrutiny Panel	Incident management : i.e. industrial action July 2014 Reports to Wolverhampton Resilience Board (WRB) Controls Assurance Statement	The exercise and testing programme once developed and implemented will provide further assurances on the management of this risk.
9	**City Centre Regeneration** If the city centre regeneration programme is not effectively managed in terms of project timings, costs and scope, then it will be unable to maximise opportunities including: • creation of well paid employment • retention of skilled workers • sector and economic growth • increased prosperity and • reduced demand on council services	**8 amber**	Internal audit review 2014/15- Management of Business Improvement District Internal audit review 2014/15- City centre development	Programme and project risk registers Project reports to Cabinet and Scrutiny	Reports to Programme Board from project managers Controls Assurance Statement	Regular update reports to Cabinet and SEB continue to provide assurance on the management of this risk.
10	**Economic Inclusion** If the Council and its partners do not work effectively together to tackle the root causes of poverty in the City then demand for Council services will continue to increase.	**16 red**	Reports to the Black Country Local Enterprise Partnership National performance indicators e.g. % residents unemployed, child deprivation, skills profile, etc.	Report to SEB – City Board – December 2013 Report to SEB- welfare reform – September 2013	Controls Assurance Statement	National indicators will demonstrate the effectiveness of the measures in place to manage this long term risk.
11	**The Care Act** If the Council does not have robust plans in place to implement the Care Act it will fail to meet its statutory obligations.	**15 red**	Internal audit review 2015/16	Report to SEB- January 2014	Monthly programme management reports to CPO and SEB Controls Assurance Statement	Assurances on the management of this risk will continue to be provided through the Corporate Programme Office.

Risk Ref	Risk Title and Description	Current Score	Types of Assurance External/ Independent (Third Line of Defence)	Risk and Compliance (Second Line of Defence)	Operational and Management (First Line of Defence)	Gaps in Assurance / Risk Exposure
12	**Better Care Fund** If the Council and its partners fail to deliver the improved outcomes required by the Better Care Fund, demand on acute services will not be reduced, the reward money will not be received and the Council will not receive the additional resources promised by the Better Care Fund.	**15 red**	Plan submission to Department of Health- April 2014 Plan submission to Department of Health- September 2014	Reports to HWBB 31 March 2014 and July 2014 Programme risk register Report to SEB – January 2014	Monthly project reports Controls Assurance Statement	Assurance on the management of the programme will be provided by the HWBB once the Better Care Plan is approved and being implemented.
14	**School Improvement** If the Council does not provide effective support, challenge and appropriate intervention to raise standards in schools, then the Council and these schools are at risk of underperforming, receiving inadequate Ofsted judgements and a potential loss of control and influence.	**15 red**	Ofsted annual report - Schools 2012/13 – December 2013 School audits 2013/14 Ofsted annual report – Schools 2013/14 – December 2014 Internal audit review 2014/15- Schools Improvement Partnership	Performance indicator – gaps in educational performance Performance indicator - end of key stage outcomes Reports to Education and Enterprise Scrutiny Panel- 2014	Reports to Cabinet Controls Assurance Statement	Up to date assurance from Ofsted is required to confirm overall risk is being effectively managed
15	**Emergency Planning** Failure to develop, exercise and review plans and capabilities for preventing, reducing, controlling or mitigating the effects of emergencies in both the response and recovery phases of major a incident.	**9 amber**	Internal Audit Review: Resilience Management and BCP Aug 2013 Follow up of Internal Audit recommendations Jan 2014 Internal audit review 2014/15 – Resilience management	Reports to Wolverhampton Resilience Board (WRB) Winter debrief report to WRB – June 2014 Report from WRB to SEB and C3 Scrutiny Panel	Incident management :– e.g. weather incidences 2014, Public disorders Summer 2012 Debrief report to SEB on mosque incident – 24 July 2013 Controls Assurance Statement	The exercise and testing programme once developed and implemented will provide further assurances on the management of this risk.
16	**Equal Pay** If schools do not comply with the Collective agreement and agree local pay scales and conditions then there is a potential for significant equal pay claims to materialise.	**12 amber**	Internal audit assurance 2013/14 Internal audit review 2014/15- Equal pay claims	Reports to Equal Pay Board	Controls Assurance Statement	Ongoing review by management of the level of claims continues to provide assurance on this risk, over which the Council has little control.

Agenda Item No: **10**

Audit Committee

22 September 2014

Report title	The Introduction of Agresso
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Danny Fitzgibbon Programme Director - FutureWorks Tel 01902 551483 Email Danny.fitzgibbon@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

Recommendations for noting:
The Committee is asked to note:

An update on the introduction of the Agresso system as requested at the last meeting of the Audit Committee.

1.0 Purpose

1.1 This report updates the Audit Committee on the introduction of the Agresso system.

2.0 Background

2.1 The FutureWorks Transformation Programme set out to transform the Council's major administrative functions of HR, Payroll, Finance and Procurement through the delivery of a new technology solution (Agresso) which is used by over 100 councils. The delivery of the Agresso solution and the associated transformation is targeted with delivering £3.4m of annual savings. These savings will be delivered through increased efficiency of the workforce by enabling them to self-serve functions which previously involved multiple departments and manual re-work. The original intention was to roll out self service across the organisation from July and this was accelerated with the early deployment of finance self service functions for example raising of requisitions, management of spend and three way matching of payments. In addition, Agresso is integrated to circa 18 systems including Northgate Revenues and Benefits and Housing, SIMS and Carefirst.

2.2 Replacement of all finance, procurement, HR and payroll systems is a complex undertaking involving:

- Implementation of 43 system interfaces
- Automating and streamlining processes into and across systems to support channel shift
- Delivery of a shared service centre – The Hub as part of a new target operating model
- Preparation of the organisation for the changes
- From 1 April the Finance, Procurement and elements of the HR system went live. The remaining functionality which is predominately around payroll and HR is being rolled out from end of July through to end of September 14. The table below provides a breakdown of the Agresso modules, the date they have been delivered and the target date when the remaining functionality will be delivered.

Some of the key challenges that the programme faced during the implementation included:

Payroll – The overriding principle for payroll was that no risk would be taken in relation to the payment of employees. The initial approach to testing payroll was to use an intelligent sampling approach that would cover all of the scenarios the Council would face. It became evident that testing this across multiple organisations in conjunction with the complexity of the workforce meant that this approach would not provide the require confidence. In addition, reconciliation work has highlighted significant manual adjustments being made on a monthly basis in order to pay correctly. This has resulted in a change in the testing approach which is now focused on reconciling two consecutive months (Mainframe and Agresso) to prove calculations are correct. We have successfully paid the City of Wolverhampton Academy Trust and Woden in July 2014, Wolverhampton Homes in August 2014 and we are targeting payment of for the Council in September. **Payments** – The agreed workflow for approval to process invoices ensures clear accountability is placed with the appropriate budget manager. The supplier also has responsibility for a number of actions including ensuring that a valid order number is quoted on an invoice. There have been several communications to over 7,000 suppliers to prepare them for the changes that they need to implement to process their invoices efficiently and also to remind them of the actions that they need to undertake. We are also planning to communicate with suppliers again in the near future to further re-iterate their responsibilities. This has been a huge change to the way the previous processes operated both for the organisation and suppliers and has resulted in delays to payments being made. Escalation routes have been put in place to ensure that payments can be prioritised as necessary.

Complexity – the core solution has had to be built to cater for a complex set of working arrangements across the Council, Wolverhampton Homes, West Midlands Pension Fund and Academies. All of these have separate employee terms and conditions, contracted arrangements and policies for example multiple positions, different leave schemes and over 500 payment and deductions codes. In addition a large scale change in the Local Government Pension Scheme from 1 April 2014 had to be incorporated into the Agresso payroll which has affected the majority of the council workforce. On-going changes to the establishment as a result of organisational change, for example reporting lines and changes to working conditions has made it difficult to validate data migrating into Agresso. This has reduced confidence in the data quality and prevented self service from being rolled out as planned.

Some examples of improvements that have been delivered include:

- Category data – five months of data is now available to drive procurement savings which has highlighted a large number of contracts which were not being centrally managed
- Council Brand - The introduction of the standard templates for sales and purchase orders makes it easier to communicate quickly and consistently with customers and suppliers
- Income – this is now reflected daily in the system enabling budget managers to more accurately report service performance and recognise service issues
- VAT Return – provides a simple online report to track the Council's VAT position
- HMRC - Electronic Submissions for HMRC for Construction Industry Schemes saving approximately three days a month
- Elections payroll – paid all individuals involved in elections on time and informed HMRC of real time information (RTI)
- Schools – are now informed of when suppliers have been paid not just that we have received a request for payment

Solution Modules Update

Payroll Functional Area	Description	Delivered	Target Delivery Date
Payroll	Delivery of a comprehensive and compliant Payroll solution	Academies July 2014 Wolverhampton Homes Aug 2014	Council and Schools September 2014
Election Payroll	Functionality to deliver payments to individuals who took part in the May elections. This includes the delivery of real time information to HMRC	June 2014	

HR Functional Area	Description	Delivered	Target Delivery Date
Human Resources	Core HR Module supporting the management and administration of the Council's, Wolverhampton Homes and West Midlands' employees	April 2014	
Expenses	Self-service enabling the online submission and approval of mileage and subsistence claims	April 2014	
Planned Absence	Self-service enabling the online submission and approval of planned absence such as annual leave	September 2014	
Absence Management	The recording and reporting of un-planned absences		July 2014 – targeted for end of September
HR Flexi Forms	Self-service HR Forms including Occupational health, Probation Management, Induction, Appraisals		Sept 2014
Reporting and Analysis Suite	Reporting and MI capability used across all modules / data		Aug - Sept 2014

Strategic & Operational Finance Functional Area	**Description**	**Delivered**	**Target Delivery Date**
General Ledger	Core accounting solution covering over 1,700 cost centres, journal, statutory reporting, VAT returns and subjective analysis	April 2014	
Contract Accounting	Ensures selection of requisitioned goods from preferred supplier contract where one is in place – drives the accounting reconciliation but also the Procurement controls	April 2014	
Planner	Common Budget Forecasting and Monitoring functionality. Delivered in live April 2014 but part of the roll out plan for 2014/15 with strategic finance to ensure budget managers have access to information	April 2014	
Asset register and asset accounting	Financial register of Asset information, which is fully compliant with statutory requirements, provides valuation of Council assets and the ability to apply depreciation rules.	April 2014	
Project Costing and Billing	Allows capital projects to record costs both resource and capital items over multiple reporting years and track via timesheet entry the costs associated with capital programmes against their associated funding sources. *There has been some difficulty with PCB. The Programme Team have worked collaboratively with the service in the delivery of this system	June 2014*	
Reporting and Analysis Suite	Reporting and MI capability used across all modules / data providing one version of the truth.	April 2014	
Income	Managing the bank account reconciliation processes, receipting, Captures the analysis of the income and expenditure and the details of the bank lodgement being made by non-Finance staff. Integrated processing and validation of Debit and Credit card transactions via a secure PCI-DSS compliant service	April 2014	
Accounts Payable	Core creditor module managing over 7000 suppliers who transact with the council. Capturing spend data, SME trading and allowing the enforcement of payment terms. Automatic gateway with HMRC for Construction Industry Scheme. Approximately 19,000 transactions dealt with in the first 3 months of go live	April 2014	
Accounts Receivable	Core debtors functionality with specific workflow controls for each type of debt driving collection activities. Manages collection of debt via court process - summonses, court costs etc. Over 13,000 sales orders in the system totalling £13.2m and being actively tracked via the Hub.	April 2014	

Purchasing	Core Procurement suite – Including Requisitions ordering goods and services with automatic category analysis (spend data) captured to help drive savings	April 2014	
E market place	Requisitioning from a marketplace (live with Staples) to ensure that the council is buying goods from the right suppliers, at the right cost with a completely paperless process.	April 2014	
Contract Accounting	Links procurement spend to approved contracts and monitors spend against contracts	April 2014	
Due North	Provides an external hosted portal to support e-Tendering. Live since September 2013 – recent examples include tendering the new Council banking contract	September 2013	
Reporting and Analysis Suite	Reporting and MI capability used across all modules / data – automatic capture of spend analytics	April 2014	
Workflow on Reporting Output	Core workflow engine allowing business rules to be maintained / amended. Ability to track processing time on all transactional workflows (e.g. average approval times by users / department) Local Government Template workflows included Custom reporting integral to the solution	April 2014	

ICTS Functional Area	**Description**	**Delivered**	**Target Delivery Date**
BizTalk	Integration hub which minimises the impact on the source systems by allowing for the data translation to occur in the middleware solution. Over 30 interfaces developed which work across the council systems with ICT now managing the service and trained to support new requirements as a corporate solution wider than FutureWorks. Interfaces working everyday 24/7 with key systems including BACS payment runs, Revenues and Benefits Income and Care Provider Payments	April 2014	
SolarWinds Monitoring	Automatic monitoring of the availability and responsiveness of Agresso to proactively manage service issues and performance – no performance issues since day 1	April 2014	
Other systems	Development and delivery of six additional systems enabling the decommissioning of the mainframe. These systems cover a variety of invoicing and payments requirements that have now been combined within the Agresso system	April 2014 – through to June 2014	

3.0 Progress, options, discussion

3.1 Audit Services will continue to play an active part in the implementation of Agresso, and will report back where appropriate to the Audit Committee.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report as it is simply providing an update on the introduction of the Agresso system. The financial implications of the system implementation are included in other reports to councillors. [GE/04092014/M]

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report. (RB/05092009/F)

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the implications in this report.

10.0 Schedule of background papers - None

This page is intentionally left blank

Agenda Item No: **11**

Audit Committee

22 September 2014

Report title	Internal Audit Charter – Annual Review
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Peter Farrow — Head of Audit Tel — 01902 554460 Email — peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

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

Perform an annual review of, and approve the Internal Audit Charter. The Charter was first introduced and approved by the Audit Committee in September 2013, and is now due for its annual review. There have been no changes since this time.

1.0 Purpose

1.1 The charter was approved by the Audit Committee in September 2013 and is now due for its annual review. There have been no changes since it was last approved.

2.0 Background

2.1 There is a statutory requirement for Internal Audit to work in accordance with the ‘proper audit practices’. These ‘proper audit practices’ are in effect the ‘Public Sector Internal Audit Standards’ and the Internal Audit Charter reflects this.

3.0 Progress, options, discussion

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

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report. (GE/04092014/G)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report. (RB05092009/C)

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the implications in this report.

10.0 Schedule of background papers - None

Wolverhampton City Council

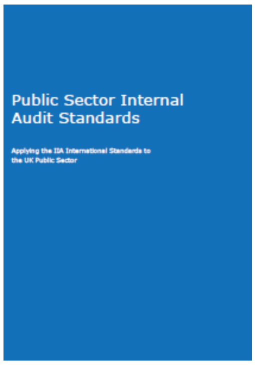
Internal Audit Charter

Definition of internal auditing

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

Authority and standards

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


Public Sector Internal Audit Standards

Applying the IIA International Standards to the UK Public Sector

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

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

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

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

Scope and objectives of internal audit activities

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

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

- Key legislative and regulatory issues impacting the Council are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Council and not just financial controls. Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

Responsibilities

Internal audit has a responsibility to:

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

Organisational independence

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

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

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

Accountability, reporting lines and relationships

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

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

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

Internal audit resourcing

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

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

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

Fraud

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

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

Advisory work

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

Review of the internal audit charter

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

Agenda Item No: **12**

Audit Committee

22 September 2014

Report title	Internal Audit Update – Quarter One
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Peter Farrow — Head of Audit Tel — 01902 554460 Email — peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

Recommendations for noting:
The Committee is asked to note:

The contents of the latest Internal Audit Update as at the end of quarter one.

1.0 Purpose

1.1 The purpose of this report is to update the Committee on the progress made against the 2014/15 audit plan and to provide information on recent work that has been completed.

2.0 Background

2.1 The internal audit update report as at 30 June 2014 (quarter one) contains details of the matters arising from audit work undertaken so far this year. The information included in the report will feed into, and inform the overall opinion in our annual internal audit report issued at the year end. It also updates the Committee on various other activities associated with the internal audit service.

3.0 Progress, options, discussion, etc.

3.1 Quarterly internal audit update reports will continue to be presented to the Committee throughout the year.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report. (GE/04092014/O)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report. (RB/03092014/F)

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report.

10.0 Schedule of background papers - None

Internal Audit Progress Report : Q1
Audit Committee: 22 September 2014

Contents:

1 Introduction

The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2014/15 internal audit plan.

The Audit Committee has a responsibility to review the effectiveness of the system of internal controls and also to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides Councillors with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Substantial	a robust framework of controls which ensures that objectives are likely to be achieved and controls are applied
Satisfactory	a sufficient framework of key controls for objectives to be achieved but the control framework could be stronger or the
Limited	a risk of objectives not being achieved due to the absence of key internal controls or a significant breakdown in the application

2 Summary of work completed

The following audit reviews were completed within the first quarter.

Key: AAN = Assessment of Assurance Need

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Red	Amber	Green	Total	Number accepted	
Bert Williams Leisure Centre – Income Management	Medium	-	5	2	7	7	Satisfactory
Coppice Performing Arts School – Provisional Financial Review	N/A*	-	-	-	-	-	N/A *
Legal Services Recharges	N/A*	-	4	-	4	4	N/A*
Adoption Reform Grant Certification	N/A*	-	-	-	-	-	N/A

Notes

* One-off pieces of work undertaken by request (outside of the Audit Plan).

There were a number of other reviews underway as at 30 June 2014, and these will be reported back in later update reports.

Year on year comparison

One piece of planned audit work has been completed so far in the current year, where an audit opinion has been provided. A summary of the planned audit opinions given, with a comparison over previous years, is set out below:

Opinion	2014/15 (Quarter 1)	2013/14	2012/13
Substantial	0	18	22
Satisfactory	1	51	44
Limited	0	9	6

3 Key issues arising

Legal Services Recharges

Further to a referral from Strategic Finance, a review was undertaken into the time recording and invoicing processes for work undertaken within Legal Services. As a result of our review, we concluded that the procedures for the recording and monitoring of chargeable time and subsequent invoicing of clients were not sufficient. This was as a result of:

- Not maintaining adequate procedures following changes in key personnel.
- Fee-earning staff not correctly recording all chargeable time and a lack of monitoring and validation procedures to ensure that fee-earners correctly record all chargeable time.
- Issues around the apparent limited functionality and incorrect use of the Iken time recording system.

Recommendations were made to resolve these issues, and they have been agreed with senior management for implementation.

Agresso

The implementation of Agresso continues to be one of the major focusses of our work, and during the first quarter we undertook the following activities:

- An on-going representation on the FutureWorks Board, and provided formal assurance to the Board at various stages, including the reconciliation of payroll data for Woden and the City of Wolverhampton Academy Trust Academies, supporting the decision to pay their July payroll from Agresso.
- Continued to provide significant internal audit resources to assist the Hub in clearing the backlog of invoices for payment.
- Focusing particular attention on the payments processes, specifically where arrangements have been made to facilitate payments outside normal processes and in monitoring duplicate payments.
- Undertaking a piece of work designed to provide assurance in respect of the benefits realisation process.
- Working extensively with the Payroll team to undertake and review payroll reconciliations in support of the planned future payment of Wolverhampton Homes and Wolverhampton City Council payrolls from Agresso.
- Providing extensive and on-going advice and support in respect of the project.

In addition to the above, we intend to undertake full end to end audit reviews of all key systems from September onwards, in order that we are able to provide assurance in respect of the implementation of Agresso.

The extent of our role in the implementation of Agresso during the year (in particular the first quarter) will in all likelihood impact upon our ability to complete a number of planned audits in-year. However, we will continue to review our planned audit capability in line with the changing risk profile of the Council, and audit resource will be targeted towards the high risk areas.

Managed Audits
Managed audits are the work we do on the Council's key financial systems and incorporate the requirements of the external auditors (PwC), in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly. All 2013/14 managed audits work was completed to the satisfaction of PwC. The 2014/15 programme of managed audits has now commenced and will be completed in the coming months.

The follow up of previous recommendations
In quarter 2, we intend to commence our follow up work on key recommendations made as part of the limited assurance reports we issued in 2013/14. Progress on which will be reported at the next Audit Committee

Counter Fraud Activities
We have continued to investigate all allegations of suspected fraudulent activity, during the year, Details of these have been presented to, and monitored through the work of the Audit Committee's Investigations Sub-Committee, along with details of a number of new initiatives put in place in order to tackle fraud across the Council.

This page is intentionally left blank

Agenda Item No: **13**

Audit Committee

22 September 2014

Report title	Internal Audit Staffing Arrangements
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Peter Farrow — Head of Audit Tel — 01902 554460 Email — peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

Recommendations for noting:
The Committee is asked to note:

The current internal audit staffing arrangements.

1.0 Purpose

1.1 This report updates the Audit Committee on the current staffing arrangements within internal audit.

2.0 Background

2.1 The Annual Internal Audit Report for 2013/14 was presented at the last Audit Committee meeting in July. During the discussions on this report, Members of the Committee noted that a number of employees had recently left internal audit, and asked for a report on staffing levels within internal audit to be presented at the next meeting. This report updates the Committee on the staffing levels.

The below table compares the staff in post within internal audit as at 1 April 2013 and those that will be in post at 1 April 2015 (following the latest trawl for voluntary redundancies and early retirement).

Role	2013	2015	Change
Head of Audit (shared role)	0.5	0.5	-
Senior Audit Manager	1	1	-
Client Lead Auditor	5	4.5	(0.5)
Senior Auditor	6	4.5	(1.5)
Auditor	1	0	(1)
Senior Assistant Monitoring	1	0	(1)
Financial Control Assistant	1	0	(1)
Total	**15.5**	**10.5**	**(5)**

As can be seen from the above, internal audit, along with the majority of service areas across the Council has had to work within tighter budget restraints, while seeking ways to continue to maintain both its effectiveness and efficiency. As a service it continues to evolve and change through a variety of routes, in order to meet these demands. Examples of this include:

- Continuing to share the Head of Audit role with our neighbours at Sandwell Metropolitan Borough Council and extending this arrangement to include strategic risk management.
- Merging with the Benefit Fraud Investigation Team and establishing a wider combined counter fraud team.
- Re-aligning the Audit Plan to ensure that audit resource is targeted towards the higher risk areas. The development of a corporate assurance map will help with this, and will also assist in providing Members of the Audit Committee with an ongoing level of comfort that appropriate assurances are being obtained.
- Generating additional income by seeking to provide internal audit and related services to a wider number of other organisations. Recent ‘successes’ include Yoo recruitment agency and 12 Academies in the borough (the Central Learning

Partnership Trust, Bishop Cleary Catholic Multi Academy Company, Wolverhampton Girl's High School and Aldersley High School.
- Entering into a new partnership arrangement with Centro (the organisation responsible for bus, rail and Midland Metro Tram transport in the West Midlands) in order to help them deliver and develop their internal audit service.
- Remaining compliant with the requirements of the new Public Sector Internal Audit Standards, and continuing to have full reliance placed on its work by the external auditors.

3.0 Progress, options, discussion

3.1 The Audit Committee will continue to receive regular updates on the work of internal audit at each meeting, along with annual reviews of:

- the internal audit charter;
- the effectiveness of internal audit; and
- compliance with the Public Sector Internal Audit Standards.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report as councillors are requested to note current staffing arrangements. The internal audit employee budget has a forecast outturn of £577,000 for 2014/15.[GE/04092014/I]

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report. (RB/05092009/C)

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the implications in this report.

10.0 Schedule of background papers - None

This page is intentionally left blank

Agenda Item No: **14**

Wolverhampton City Council

Audit Committee

22 September 2014

Report title	CIPFA Audit Committee Update – Issue 14
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Peter Farrow — Head of Audit Tel — 01902 554460 Email — peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

Recommendations for noting:

The Committee is asked to note:

The contents of the latest CIPFA Audit Committee Update, Issue 14 – helping audit committees to be effective.

1.0 Purpose

1.1 CIPFA (Chartered Institute of Public Finance and Accountancy) issue regular briefings for audit committee members in public sector bodies. Their aim is to provide members of audit committees with direct access to relevant and topical information that will support them in their role.

2.0 Background

2.1 The latest edition of these briefings covers, amongst other topics, external audit quality and independence, Government consultation on Local Audit regulations and CIPFA's consultation on a new counter fraud code.

3.0 Progress, options, discussion

3.1 Further CIPFA updates will be brought before the Audit Committee, as and when they are published.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report. (GE/04092014/H)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report.

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the recommendations in this report

10.0 Schedule of background papers

10.1 CIPFA Audit Committee Update – Issue 14

CIPFA The Chartered Institute of Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

- helping audit committees to be effective

Issue 14

External Audit Quality and Independence

Government Consultation on Local Audit Regulations

CIPFA's Consultation on a new Counter Fraud Code

Regular Briefing on Current Issues

July 2014

Introduction

Dear Audit Committee Member,

This is the 14th issue of Audit Committee Update. It contains an article explaining current arrangements for overseeing the quality and independence of external auditors. Both the quality of the work performed by external auditors and their independence are essential factors underpinning the audit opinion on the financial statements and other audit work performed so it is important for audit committees to have an appreciation of them. For organisations in England whose auditors are appointed for them by the Audit Commission it is also helpful to understand what monitoring is undertaken on the contracts by the Audit Commission.

There are also articles outlining CIPFA's work on developing a counter fraud code of practice and recent consultation around local audit regulations.

In addition we include our round up of developments to help keep you informed and up to date. The round up includes a number of developments in the fields of governance, risks and counter fraud so I am sure you will find topics of interest and use here.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this Document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisation. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

Previous Issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. The earlier issues are on the archive site. Click on the links below to find what you need.

Issue	Principal Content	Link
1	Reviewing the Audit Plan – Please note that Issue 13 provides an updated review of this topic.	Issue 1
2	Reviewing the Annual Governance Statement	Issue 2
3	Countering Fraud	Issue 3
4	Strategic Risk Management, Governance Risks in 2011, Role of the Head of Internal Audit	Issue 4
5	Understanding the Impact of IFRS on the Accounts, Key Findings from CIPFA's Survey of Audit Committees in Local Government	Issue 5
6	Partnerships from the Audit Committee Perspective	Issue 6
7	Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
8	Commissioning, Procurement and Contracting Risks	Issue 8
9	Reviewing Assurance over Value for Money	Issue 9
10	Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
11	Local Audit and Accountability Bill, the Implications for Audit Committees Update of CIPFA's Guidance on Audit Committees	Issue 11
12	Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
13	Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13

Workshops and Training for Audit Committee Members in 2014 from CIPFA

Developing the Audit Committee

A practical workshop designed to improve the focus and impact of audit committees and extend the knowledge and skills of audit committee members.

2 October 2014, Edinburgh; 4 December 2014, London

Advanced Audit Committees

The audit committee's role in relation to risk, value for money and countering fraud.

20 November 2014, London

Governance Annual Summit

16 October 2014, London

The annual summit features high profile speakers and addresses the governance challenges facing the public services. The full programme will be confirmed shortly along with booking details but confirmed speakers include:

- Sheila Drew-Smith, Member of the Committee on Standards in Public Life
- Jessica Crowe, Chief Executive, Centre for Public Scrutiny
- Rob Whiteman, Chief Executive, CIPFA

CIPFA events information and dates available are on the website. http://www.cipfa.org/Events

In house training

In house audit committee training tailored to your needs is available. For further details contact chris.o'neill@cipfa.org or email diana.melville@cipfa.org or visit the website.

Receive our Briefings Directly

This briefing will be sent to all contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. Register now, please click here https://www.cipfa.org/Login.

Understanding External Audit Quality and Independence

Introduction

The audit opinion from external audit is one of the most important elements of assurance that the audit committee receives. It is helpful therefore for audit committee members to understand some of the professional standards, guidance and oversight arrangements that are in place to safeguard the quality of that audit opinion and auditor independence. Audit quality and independence are essential to ensure there is public confidence in external audit and they are taken very seriously by the external auditors themselves as well as regulators.

It is also helpful for audit committee members to understand the role they can play to support an efficient external audit and to help ensure good working relationships between their organisation and the auditors.

What does the audit committee need confidence in? There are three main areas that are of importance to an audit committee:

1. That auditor independence is safeguarded.
2. That a satisfactory quality of audit is provided.
3. That the customer service provided and client relationships operate well.

Auditor independence

Independence is safeguarded by a combination of ethical standards to which all external auditors must adhere and specific arrangements for the appointment of auditors. For many parts of the public sector external auditors are not appointed by the client organisation but by the appointed audit institutions (Audit Commission, National Audit Office, Audit Scotland, Wales Audit Office, and Northern Ireland Audit Office). The Codes of Audit Practice[1], to which all external auditors of local government and local health bodies work, include standing guidance that requires auditors to ensure they are independent of their client. This includes, for example, a requirement that the auditors should not be employed by or be a member of their client organisation.

Ethical standards for **all** public and private sector external auditors are set by the Auditing Practices Board (APB) of the Financial Reporting Council (FRC). The objective of these is that 'auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence'[2]. Ethical Standard 1 contains the following requirement:

> *The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence.*

Typically it would be the audit committee that would be the recipient of that information. So for example the annual plan from your external auditor is likely to include a statement about their independence for the period covered by the plan.

---

[1] Audit Commission http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/

[2] *Ethical Standard 1 (Revised) Integrity, Objectivity and Independence* (Auditing Practices Board FRC, 2011) https://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx

Role for the audit committee:

- Review the assurances from your external auditor over independence.

Auditors are also obliged to abide by the ethical standards of their professional institute. For example CIPFA members and students need to abide by the *Standard of Professional Practice on Ethics*[3] (IFAC, 2010).

Quality of audit

All the national audit bodies have arrangements in place to ensure that the quality of audit work undertaken, whether by their own auditors or by appointed firms, comply with auditing standards, ethical standards and the body's own quality arrangements. It is helpful for an audit committee member to understand the quality mechanisms that underpin the work of external audit, roles and responsibilities and to know what information is available. Overall audit quality inspections conclude that audit quality is good, but there can always be scope to improve and ensure consistency.

Quality review processes

All audit organisations will operate their own quality mechanisms to ensure that their audits are all conducted to the required quality standards. Typically this includes the provision of training and guidance to ensure adherence to standards and review mechanisms to check the performance of audit work by more senior staff. This would be completed before the audit is signed off. The second stage is a "cold" review of a sample of audits by an in-house quality team against quality standards. This would normally be conducted after an audit has been completed.

The appointing body of the external auditor will also have arrangements in place to monitor the performance of firms undertaking audits on its behalf. For example the Audit Quality Review team of the FRC may be invited to undertake an independent quality review of a sample of audits and to report to the regulator on their findings. This is then used to inform the regulator's monitoring.

Role of the audit committee:

- Understand the quality mechanisms that underpin the work of external audit. These are usually outlined in the audit plan report to the committee.
- Consider the annual reports from the relevant regulator that provide assurance on audit quality (see section below and links to further documentation available).
- See the published quality inspection reports relevant to your external audit firm (where available).

Customer service

A good working relationship between the external auditor and your finance and internal audit teams is helpful to ensure an efficient external audit.

The audit committee can seek assurance from the chief financial officer and head of internal audit on how well the external audit team are working with your finance and internal audit teams. There should be good day-to-day contacts between the teams.

---

[3] http://www.cipfa.org/membership/conduct-and-ethics/ethics

External audit should clearly set out their expectations, liaise over timescales and requirements and provide good client support. Minor difficulties should be resolved without recourse to the audit committee but the audit committee should provide support where required. If a formal complaint is made to the external auditor then it would be reasonable for the audit committee to be informed.

The lead external auditor or representative is likely to attend most audit committee meetings and it is helpful for the audit committee to receive assurance that the external audit team is receiving the co-operation required. Again it would not be expected that minor matters would be raised directly with the audit committee but the audit committee may need to become involved in a more serious failure in co-operation.

It is helpful for the audit committee to have a good relationship with the nominated lead of the external audit team. This will help the committee to better understand the audit plan, team roles and their approach to the audit.

Accessing further information

Available from the Audit Commission:

- *Regulatory Compliance and Quality Review Programme Annual Report 2014*. This provides an overview of the quality of work across all audit suppliers appointed by the Audit Commission.
- Annual regulatory compliance and quality report on each of the firms contracted to provide audits 2013. These include the results of the Audit Commission's own quality review work on each firm and incorporate the results of the FRC's commissioned work. The reports identify improvement points identified during the review processes and comparison against other audit suppliers.
- Quarterly regime compliance monitoring reports 2013/14. These are published quarterly and summarise the performance of each firm against key quarterly performance indicators. The performance indicators cover whether deadlines have been met, attendance at technical meetings and approval of non-audit work.

http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/

Available from the National Audit Office (NAO):

- *Transparency Report* (2012) http://www.nao.org.uk/about-us/what-we-do/audit-quality/

Available from Audit Scotland:

- *Transparency and Quality Report* (2014) http://www.audit-scotland.gov.uk/docs/corp/2014/as_transparency_1314.pdf

Available from the Wales Audit Office:

- *Transparency Report 2012-13* (2013) http://www.wao.gov.uk/sites/default/files/download_documents/Wales_Audit_Office_Transparency_Report_English_2013.pdf

Available from the FRC:

- An annual report summarising the overall findings from the inspection work of the Audit Quality Review team, including inspections of audits on public sector entities. The most recent report was published in May 2014 and is available on the FRC website. It includes a summary of 2013/14 inspection results, outlines key issues arising and also outlines changes to future inspection work resulting from the Local Audit and Accountability Act 2014.

- Quality reports on "big 5"[4] firms. Of interest if one of these is your external audit provider.
- Thematic reports on quality issues.

https://www.frc.org.uk/Our-Work/Conduct/Audit-Quality-Review.aspx

Future regime changes

Organisations that currently have their external auditors appointed for them by the Audit Commission should be aware of the future changes being made. The Audit Commission is closing at the end of March 2015 as a result of the Local Audit and Accountability Act 2014, but current audit contracts arranged by the Audit Commission will continue. The Department for Communities and Local Government (DCLG) has announced that a new company to be established by the Local Government Association (LGA) will have oversight of the contracts until they expire at the end of 2017 or 2020 if they are extended. This oversight will include the quality and contract monitoring that the Commission currently undertakes and this is specified in the draft Local Audit Regulations. The future appointment of external auditors under the Act will change the quality regime with a new role for the FRC.

The NAO has formally taken on responsibility for the Codes of Audit Practice and these will be out for consultation this summer.

Diana Melville

CIPFA Better Governance Forum

[4] Baker Tilly, Deloitte LLP, Ernst & Young LLP, KPMG LLP and KPMG Audit Plc and PricewaterhouseCoopers LLP

CIPFA Consults on New Counter Fraud Code

Background to the code

Managing the Risk of Fraud[5] was developed by the Better Governance Forum Counter Fraud Panel in 2005 and has gained widespread acceptance among counter fraud professionals. It is used to guide and assess good practice in counter fraud arrangements across many organisations. The guidance was updated in 2008 and the BGF has been planning a review of the standards for a while to ensure that it remains current.

The guidance still contains much that is relevant and useful, however we know that some smaller organisations have found it too long and detailed for application in their organisations. As part of our review we considered it essential that an updated version should be a tool for communicating the importance of effective counter fraud arrangements to senior managers, the board and the audit committee and also outlined the importance of governance and leadership for achieving effective arrangements. As a result we felt a shorter set of principles that focused on the responsibilities of the organisation's leadership as well as counter fraud expertise was the way forward.

CIPFA has also decided to give the guidance a higher status as a code, although adherence to it is voluntary. Another objective was that the code should be suitable for application across all parts of the public services. This is of increasing importance with the growth of collaborative arrangements across public bodies. Again this objective pointed to a higher level set of principles. At the same time CIPFA recognises the need for help and support in applying the principles to specific organisations so supplementary guidance notes are being developed, together with an assessment tool to enable evaluation and benchmarking of an organisation's approach to tackling fraud and corruption.

Draft code and consultation process

The draft code has been out for consultation since mid-May and is available to download from the CIPFA website. We asked for comments to be sent to us by 18 July and we are now analysing the responses. If you do have comments you would like to make, do get in touch as soon as possible. CIPFA is keen to hear not just from counter-fraud experts but also senior managers, audit committee members and governors as they all have a stake in operating the code.

The code is made up of five principles:

1. Acknowledge the responsibility of the governing body for countering fraud and corruption.
2. Identify the fraud and corruption risks.
3. Develop an appropriate counter fraud and corruption strategy.
4. Provide resources to implement the strategy.
5. Take action in response to fraud and corruption.

Each of the principles contains a number of more detailed statements that explain what action is required. For example there are four statements underpinning the principle of acknowledging responsibility:

Acknowledge Responsibility
The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation:

[5] *Managing the Risk of Fraud, Actions to Counter Fraud and Corruption* (2008 edition)

- The organisation's leaders acknowledge the threats of fraud and corruption, the harm they can cause and the potential for savings from managing the risk.
- The organisation's leaders acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the standards of good governance.
- The governing body acknowledges its responsibility for managing its fraud and corruption risks and will be accountable for the actions it takes through its governance reports.
- The governing body sets a specific goal of improving its resilience to fraud and corruption.

CIPFA has also established a Counter Fraud Centre to be a centre of excellence in counter fraud and to build on the existing resources of both CIPFA and the Audit Commission in supporting excellent counter fraud practice. CIPFA will also be working with the Fighting Fraud Locally Board to produce the next counter fraud strategy for local government and leading new initiatives in support of Fighting Fraud Locally. Further details about the Centre can be found on the CIPFA website - http://www.cipfa.org/services/counter-fraud-centre.

Role of the audit committee

Recent guidance from CIPFA[6] sets out in more detail the role of the audit committee in respect of counter fraud:

> *The audit committee role should be to have oversight of the authority's strategy to counter fraud – assessing whether it meets recommended practice and governance standards and complies with legislation.*

So the draft code is a key document for the audit committee to refer to when considering whether its organisation's understanding of fraud risk, capacity and capability to respond to the risk and clear leadership of the counter-fraud strategy are fit for purpose. Further guidance to the audit committee will be available in the next issue of Audit Committee Update when the code and guidance notes are published.

Next steps

Please visit the CIPFA website to download the draft code - http://www.cipfa.org/policy-and-guidance/consultations/code-of-practice-on-counter-fraud.

[6] *Audit Committees, Practical Guidance for Local Authorities and Police* (2013 edition)

Government Consultation on Local Audit Regulations

DCLG has issued a consultation on regulations relating to the implementation of the Local Audit and Accountability Act 2014. The draft regulations cover a number of different topics. As well as matters relating to the implementation of the Act there are also updated Accounts and Audit Regulations which directly impact on the work of finance and internal audit.

The following short summary identifies a few of the key areas of interest to the audit committee.

Collective auditor procurement

The regulations set out how the secretary of state will nominate "an appointing person" to operate a collective procurement on behalf of authorities. Authorities (including police and health bodies covered by the Act) will have the option of choosing a collective procurement. If they choose this option it will replace the requirement under the Act to establish an auditor panel to oversee and recommend an appointment.

The appointing person will invite authorities to join in. Acceptance of the invitation means commitment to the term of the audit contract. At the end of the procurement exercise the appointing person will have a duty to consult the client authority on the external auditor selected for appointment. The appointing person will also set the audit fees to be paid following consultation.

The appointing person will also have other responsibilities, which are to design and implement appropriate systems to:

- oversee the ongoing independence of the auditor
- monitor the compliance of appointed auditor with contractual obligations and
- deal with disputes or complaints relating to audit contracts and the carrying out of audits.

Accounts and Audit Regulations (England)

From the accounts for the financial year 2017/18 the government proposes to bring forward the existing dates of 30 June and 30 September to 31 May and 31 July for accounts being signed and certified by the responsible financial officer and then approved and published. This means that audit committees will be reviewing the audited accounts in July rather than September.

There are also changes to the rules on the exercise of the public's rights to inspect the accounting records and to put objections and questions to the auditor. These will both commence immediately after the responsible financial officer has certified the accounts and the unaudited accounts must be published then.

The requirement for internal audit has been amended to explicitly include risk management, control and governance and to refer to public sector internal audit standards. The annual review of effectiveness is no longer included.

Full details of the draft regulations are available on the government website - https://www.gov.uk/government/consultations/local-audit-regulations.

CIPFA has responded to the regulations.

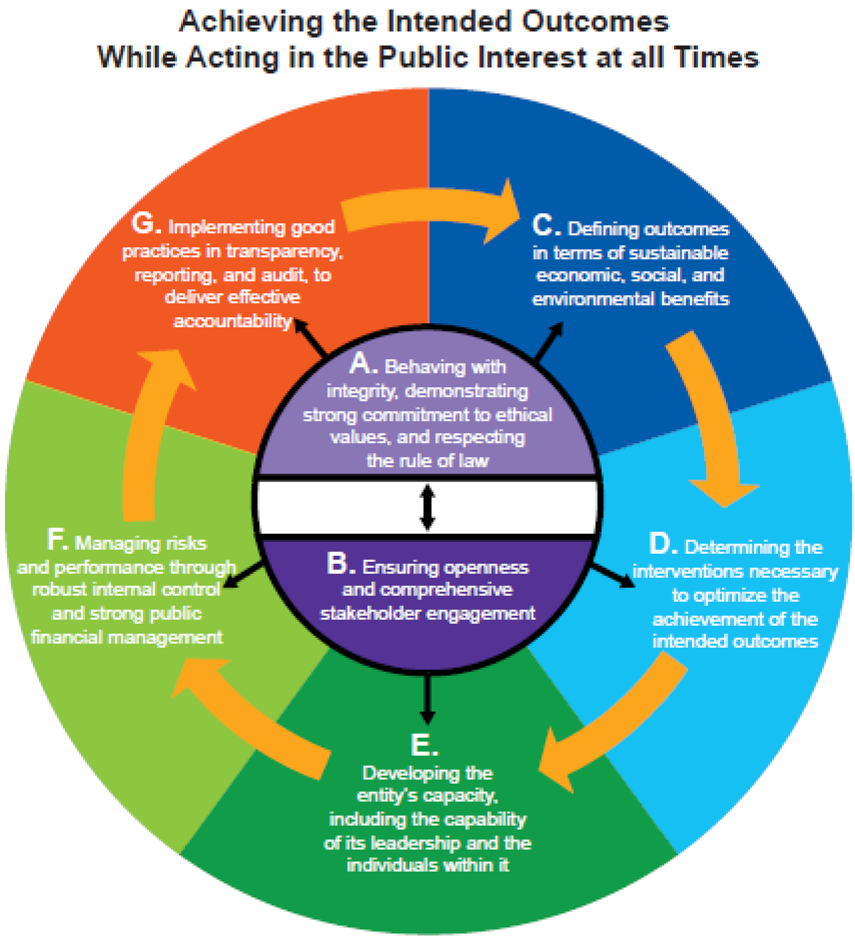
Recent Developments You May Need to Know About:

Reports, Recommendations and Guidance

International Framework: Good Governance in the Public Sector

CIPFA has worked with the International Federation of Accountants (IFAC) to develop a new international framework on governance. The framework aims to encourage more effective public sector governance and better governed and managed public sector entities. The aim of governance should be to help the organisation to achieve its intended outcomes while acting in the public interest at all times.

To support that objective the framework sets out six principles, as illustrated in the following diagram:



The international framework does not replace existing governance frameworks, such as the CIPFA/SOLACE Framework for local government. However, CIPFA will be using the framework to help shape its future governance work.

[Download the International Framework from the CIPFA website](#)

Ethical Standards for the Providers of Public Services

The Committee on Standards in Public Life has published its report including results of research with commissioners of services, providers and the public. This is an important area as more public services are delivered by private contractors. The report makes a number of recommendations to government to ensure that proportionate ethical standards are made explicit in commissioning, contracting and monitoring arrangements for all those delivering public services.

Committee on Standards in Public Life Report

Ethics in Practice: Promoting Ethical Standards in Public Life

Another report from the Committee on Standards in Public Life, this time focusing on the promotion of ethical standards, particularly through the use of induction on appointment. Good arrangements were identified in many parts of the public sector but the committee identified the need for improvement in some, for example MPs and police and crime commissioners.

Committee on Standards in Public Life Ethics Report

Auditor General for Wales Improvement Study: Scrutiny in Local Government

The Wales Audit Office has issued a report which aims to help councils achieve lasting improvements in scrutiny. Overall the Wales Audit Office concludes that local government scrutiny in Wales is improving but councils need to do more to develop consistently rigorous scrutiny to increase public accountability in decision-making. The report includes a number of recommendations and also features the outcomes and characteristics for effective local government overview and scrutiny developed by the Wales Scrutiny Officers Network.

Wales Audit Office Scrutiny Report

Centre for Public Scrutiny, Growth through Good Governance

A new report from the Centre that considers how good governance supports economic development. For example the report identifies how good governance leads to a clearer sense by partners of what they are trying to achieve – which is critical to securing meaningful outcomes from partnership work. Clarity of funding and clarity of involvement are also highlighted as resulting from good governance.

Centre for Public Scrutiny Report

Implementation of the Single Fraud Investigation Service and Accessing Funding for Counter Fraud Activities

Audit committee members in local authorities are likely to be aware of the changes currently being implemented for the investigation and prosecution of welfare fraud. As part of the move to Universal Credit the Department for Work and Pensions (DWP) is establishing a Single Fraud Investigation Service (SFIS) and local authorities will not investigate housing benefit fraud. This is likely to involve some transfer of staff, both fraud investigators and prosecution lawyers. Dates have been set for all authorities and these are staggered over the next year.

Authorities still retain responsibility for fraud prevention and the investigation of all other fraud risks, for example: tenancy fraud, frauds affecting council tax or business rates, procurement fraud, pension and payroll fraud. It is therefore vital that councils review their counter-fraud capacity and capability in the light of the SFIS changes.

DCLG has announced a fund to support the development of counter fraud initiatives. Further details of how to bid are on the DCLG website.

Communities and Local Government Counter Fraud Fund

National Fraud Initiative reports

The data matching exercise co-ordinated by the Audit Commission identified £229m of fraud, overpayment and error across the UK. Scotland Wales and Northern Ireland have also published their own results for their areas. The survey includes local government, police, fire, health bodies and some central government departments and agencies.

- Audit Commission – National Report
- Audit Scotland
- Wales Audit Office
- Northern Ireland Audit Office

Schools Fraud Healthcheck

Guidance to schools on fraud risks, including examples of the types of frauds schools are at risk from is now available. The guidance has been developed by Mazars to support the Fighting Fraud Locally strategy. CIPFA is supporting the Fighting Fraud Locally initiative through its new Counter Fraud Centre. The guidance can be downloaded from the Centre's website.

CIPFA Counter Fraud Centre – Schools Fraud Healthcheck

Government Response on Whistleblowing

The government has published its response to its earlier consultation on the adequacy of whistleblowing arrangements. Key recommendations include:

- improved guidance for individuals
- development of best practice or non-statutory code
- introduction of a duty to report annually on whistleblowing
- celebration of those employers who embrace whistleblowing in their organisation.

Business Innovation and Skills Response

The National Audit Office's Role in Local Audit

The NAO has produced a guide explaining its new role resulting from the Local Audit and Accountability Act 2014.

National Audit Office Guide

Understanding Central Government's Accounts – An Introductory Guide for Those with an Oversight Role

A new guide from the NAO is aimed at helping non-accountant readers of government's accounts understand better what is being reported in them and what it means. The guide explains the key elements of the accountability cycle for public money, as well as the purpose and content of the annual report, the primary statements and the notes to the accounts. It also includes some challenge questions that readers of the accounts might like to use.

National Audit Office Guide to Accounts

Scotland's Public Finances - Follow-up Audit: Progress in Meeting the Challenges

A new report from Audit Scotland says that public bodies have coped well so far with reduced budgets but need to focus more on priorities and develop longer-term financial plans. It says that longer-term spending plans focusing on priorities and risks must be created to assess spending needs and options and their implications for affordability.

Audit Scotland Report

Police Reform: a Developing Picture

A report from Grant Thornton looking at the implementation of new governance arrangements from the Police Reform and Social Responsibility Act 2011. It focuses on three main areas:

1. Governance and accountability.
2. Partnerships, collaboration and commissioning.
3. Public communication and transparency.

Grant Thornton report on police reform

Government Response on Local Government Procurement

The government has responded to the Communities and Local Government Select Committee report on Local Government Procurement.

Communities and Local Government Response

The Audit Committee Cycle

Audit committee annual reports

Many audit committees prepare an annual report to demonstrate how they have fulfilled their role and purpose over the previous year. The Better Governance Forum has produced a new briefing to support organisations preparing their report.

CIPFA Better Governance Forum Briefing

Reviewing the annual governance statement

Audit committees may have already considered the draft annual governance statement (AGS) and supporting evidence. The final version must be published alongside the financial statements by 30 September. Issue 10 of Audit Committee Update included details of the latest guidance from CIPFA on the AGS.

The Better Governance Forum has a webinar and presentation on its website with a note about the key changes to remember for the 2013/14 AGS for local government. This can be accessed through the following link:
Annual Governance Statements webinar

One point that is often overlooked is that the AGS should be current at the point that it is published. If publication is in September then the audit committee should be satisfied that there are no material developments or changes since they first reviewed the statement or that the statement has been brought up to date. The statement should be signed shortly before publication.

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

3 Robert Street, London WC2N 6RL

020 7543 5600 \ www.cipfa.org

CIPFA \ The Chartered Institute of Public Finance & Accountancy

Diana Melville
Governance Advisor
CIPFA Networks
3 Robert St
London
WC2N 6RL
020 7543 5600
Diana.melville@cipfa.org
www.cipfa.org

Agenda Item No: **15**

Wolverhampton City Council

Audit Committee
22 September 2014

Report title	Payment Transparency
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Peter Farrow — Head of Audit Tel — 01902 554460 Email — peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable

Recommendations for noting:
The Committee is asked to note:

The Council's current position with regards to the publication of all its expenditure.

1.0 Purpose

1.1 This report is to update the Committee on the Council's current position with regards to the publication of all its expenditure.

2.0 Background

2.1 The latest position on the Council's payment transparency activity is as follows:

- Following the introduction of Agresso, the Council now publishes its own spend data, instead of using a third party.
- The data is available on the Council's internet site under Transparency and accountability (payments to suppliers).and will be updated monthly.
- In addition to the spend for 2014 to date the site also includes spend for the financial years from 2011 to 2014.
- Since last reported to the Audit Committee in June 2014, there have been no requests for information from the public (as an 'armchair auditor') via the mailbox available on the Council's website.

3.0 Progress, options, discussion

3.1 We will report back to the next Audit Committee on the details of any 'armchair auditor' requests the Council receives.

4.0 Financial implications

4.1 There are no financial implications arising from the recommendations in this report. (GE/04092014/U)

5.0 Legal implications

5.1 There are no legal implications arising from the recommendations in this report.

6.0 Equalities implications

6.1 There are no equalities implications arising from the recommendations in this report.

7.0 Environmental implications

7.1 There are no environmental implications arising from the recommendations in this report.

8.0 Human resources implications

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

9.0 Corporate landlord implications

9.1 There are no corporate landlord implications arising from the implications in this report.

10.0 Schedule of background papers - None

Agenda Item No: **16**

Audit Committee

22 September 2014

Report title	Budget Update and Review
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Mark Taylor — Assistant Director Finance Tel — 01902 55(6609) Email — mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Consider the arrangements for:
    a. Ensuring adequate identification and management of budget risks;
    b. Budget planning and forecasting for future years.

1.0 Purpose

1.1 To bring to Audit Committee's attention information about the council's finances that has recently been reported to the Cabinet and Cabinet (Resources) Panel, including:

Reports relating to the 2013/14 Outturn

- The outturn position for 2013/14 against capital budgets;
- The outturn position for 2013/14 against revenue budgets;
- The use of, and additions to, specific reserves, provisions and balances during 2013/14;
- The council's treasury management activities during 2013/14.

Reports relating to Monitoring of the 2014/15 Budgets

- The forecast outturn position for 2014/15 against capital budgets as at quarter one, and the forecasts for 2015/16 to 2018/19;
- The forecast outturn position for 2014/15 against revenue budgets as at quarter one;
- The council's treasury management activities during the first quarter of 2014/15 and the forecasts for the remainder of the year.

Reports relating to the Medium Term Financial Strategy

- The council's forecast General Fund budget and savings requirements for 2014/15 and beyond.

Reports relating to the Council's Housing Revenue Account (HRA) Business Plan

- The council's HRA outturn position for 2013/14 against revenue and capital budgets;
- The council's HRA forecast outturn position for 2014/15 against revenue budgets;
- The council's HRA Business Plan, including the capital programme for 2014/15 – 2018/19.

.

2.0 Background

2.1 As set out in Audit Committee's work plan, regular updates on the budget and medium term financial strategy will be received throughout the year. This is the first report of this nature for 2014/15.

2.2 Reports focussing on the council's finances have been received by Cabinet and Cabinet (Resources) Panel as set out below:

Cabinet, 25 June 2014

- Managing the Budget Cuts – The Next Phase
- Capital Budget Outturn 2013/14 including Quarter One Monitoring 2014/15.

Cabinet, 23 July 2014

- Treasury Management - Annual Report 2013/14 and Activity Monitoring Quarter One 2014/15;
- Housing Revenue Account Business Plan Update Quarter One 2014/15;
- Reserves, Provisions and Balances 2013/14;

- Revenue Budget Outturn 2013/14.

Cabinet (Resources) Panel, 29 July 2014
- Quarter One Revenue Budget Monitoring 2014/15.

***In order to minimise printing costs the Committee Chair has agreed that full versions of the reports will not be circulated again - however it is recommended that Committee members review the reports ahead of the meeting, and are requested to please bring the full versions that were circulated with the relevant Cabinet agenda papers to this meeting.**

3.0 Managing the Budget Cuts – The Next Phase

3.1 This report identified additional savings for both 2014/15 and 2015/16 in accordance with the strategy set out in the five year budget and medium term financial strategy (MTFS) 2014/15 to 2018/19, that was approved by Cabinet in February 2014 and Full Council in March 2014.

3.2 The following strategy to address the budget deficit was approved by Council on 6 March 2014:
- A minimum of £25.0 million of additional savings for 2015/16 should be identified and reported to Cabinet in June 2014, in order to demonstrate that a balanced budget can be achieved and that general reserves can be partially replenished.
- That additional savings for 2014/15 should be identified and reported to Cabinet in June 2014 and then Council in July 2014 in order to revise the 2014/15 budget and reduce the call on general reserves.
- That a further £35.0 million of additional savings should be identified, taking the total additional savings to be identified to £60.0 million, in order to address the projected budget deficit over the medium term to 2018/19.

3.3 Work has been in progress since the 2014/15 budget was set to identify the required savings with savings proposals amounting to £18.1 million identified for 2015/16; £1.7 million of which can be achieved during 2014/15.

3.4 Work is continuing to deliver the agreed strategy to address the projected budget deficit; namely to identify a further £7.0 million of savings for 2015/16.

3.5 The overall level of risk associated with the five year budget and MTFS for 2014/15 to 2018/19 continues to be assessed as Red. The six main areas of risk are summarised in Appendix B of the report.

4.0 Capital Budget Outturn including Quarter One Monitoring 2014/15

4.1 The council's capital expenditure for 2013/14 totalled £117.5 million. This represented 83% of the approved budget for the year. The forecast spend for the current year, and the following four years is as follows:
- 2014/15: £124.2 million.

- 2015/16: £48.0 million.
- 2016/17: £14.7 million.
- 2017/18: £5.9 million.
- 2018/19: £2.0 million.

4.2 There are a number of significant risks associated with the medium-term capital programme. These are discussed in Appendix G of the report. The overall risk associated with the Programme continues to be quantified as Amber.

5.0 Treasury Management - Annual Report 2013/14 and Activity Monitoring Quarter One 2014/15

5.1 This report confirms that during the course of 2013/14, the Council followed the recommendations as set out in the Treasury Management Strategy 2013/14. This included the authorised borrowing limit set at £905.8 million, the Treasury Management Strategy, the Annual Investment Strategy, the Prudential Indicators and the Annual Minimum Revenue Provision (MRP) Statement.

5.2 Overall treasury management activities generated a saving of £10.7 million for the General Fund and a saving of over £2.0 million for the HRA in 2013/14. Included within the General Fund figure is the one-off benefit of £10.0 million arising from the adjustment to the value of variable E calculation in respect of redemption of debt. This was approved by Cabinet on the 23 October 2013 as part of the Five Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19 report.

5.3 Revenue savings of £214,000 for the General Fund and £5.9 million for the HRA are projected for the year 2014/15, arising mainly as a result of the Council's strategy to use cash balances to finance capital expenditure rather than external borrowing. Borrowings and investments are actively managed to achieve savings wherever possible.

6.0 Housing Revenue Account Business Plan Update Quarter One 2014/15

6.1 The revenue outturn for 2013/14 was a surplus (before allocations to reserves and redemption of debt) of £14.5 million compared to a budgeted surplus of £10.6 million. This was primarily due to the council's treasury management strategy of using cash balances rather than taking on additional external borrowing wherever possible, which generated a saving in excess of £2.0 million. There was also a saving of £1.1 million on the net cost of services. This was primarily due to bad debts being lower than had been forecast generating a saving on budget of £700,000 and costs being lower for repairs and maintenance than had been forecast by £400,000.

6.2 The total capital expenditure for 2013/14 was £43.1 million, £32.2 million less than the £75.3 million budgeted. This was primarily due to the strategic construction partnership not coming on stream as quickly as had been anticipated and a re-profiling of works which has moved significant amounts of planned expenditure into the current financial year.

6.3 The forecast revenue outturn against the 2014/15 budget is a surplus before allocations of £13.9 million, which is on budget.

6.4 The HRA continues to be forecast to have sufficient resources to fund the £1.9 billion of capital works that will be required to its houses over the next 30 years, as well as meeting its management and maintenance obligations over the same period.

6.5 There are a number of risks associated with the HRA Business Plan Update. These are discussed in Appendix C of the report. The overall risk associated with the budget continues to be quantified as Amber.

7.0 Reserves, Provisions and Balances 2013/14

7.1 This report details the council's specific reserves, provisions and general balances as at 31 March 2014, and the movements during the year. Specific reserves decreased by £15.9 million to £27.6 million, provisions decreased by £4.9 million to £39.1 million and general balances increased by £9.5 million to £47.5 million.

7.2 General balances have increased on the whole as a result of £17.1 million that was transferred into the General Fund balance during 2013/14. This was a combination of funding previously earmarked for a specific purpose that was no longer deemed to be required and therefore available to general fund balances, as approved by Full Council in November 2013, in addition to a one-off benefit to the General Fund arising from an adjustment to the value of variable E in the annual provision for the redemption of debt formula, as set out in the Council's Annual Minimum Revenue Provision (MRP) Statement and approved by Council on 6 November 2013.

8.0 Revenue Budget Outturn 2013/14

8.1 This report confirmed a net overspend of £2.3 million (0.91%) was incurred against the General Fund net budget requirement of £255.6 million for 2013/14; after taking account of the cost of redundancy during the year totalling £4.6 million. This overspend was met by a transfer from the General Fund balance.

8.2 The net overspend position takes into account transfers to and from reserves and provisions, including the budgeted use of £3.7 million of the General Fund balance, which was included in the 2013/14 approved budget.

8.3 The Collection Fund outturn was a £1.3 million surplus during 2013/14; this resulted in an overall surplus of £700,000 to be carried forward, after taking account of the deficit of £600,000 from previous years.

8.4 Schools balances reduced by £1.4 million during 2013/14. This is a more favourable position when compared to the projected use of £3.8 million of reserves anticipated for the year.

9.0 Quarter One Revenue Budget Monitoring 2014/15

9.1 Overall a net over spend of £613,000 (0.25%) is projected against the General Fund net budget requirement of £247.8 million.

9.2 An update to the budget and Medium Term Financial Strategy presented to Cabinet on 25 June 2014, detailed the work that has taken place during the early part of 2014/15 to identify further savings. A strategy was approved by Cabinet to identify £25 million of savings for 2015/16 by October 2014 in addition to a further £35 million for the medium term period to 2018/19. Acceleration and identification of 2014/15 savings proposals equating to £1.7 million were approved and therefore a revised budget has been reflected in this budget report. Those savings will reduce the call on general fund reserves this financial year.

9.3 There are a number of risks associated with the revenue budget for 2014/15. These are discussed in Appendix F of the report. The overall level of risk associated with the revenue budget for 2014/15 is assessed as Amber.

10.0 Financial Implications

10.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel. [MH/22082014/C]

11.0 Legal implications

11.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel. [AS/16092014/H]

12.0 Equalities implications

12.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.

13.0 Environmental implications

13.1 These are detailed within the reports to Cabinet and Cabinet (Resources) Panel.

14.0 Schedule of background papers

14.1 Managing the Budget Cuts – The Next Phase, report to Cabinet, 25 June 2014.
Capital Budget Outturn 2013/14 including Quarter One Monitoring 2014/15, report to Cabinet, 25 June 2014.
Treasury Management - Annual Report 2013/14 and Activity Monitoring Quarter One 2014/15, report to Cabinet, 23 July 2014.
Housing Revenue Account Business Plan Update Quarter One 2014/15, report to Cabinet, 23 July 2014.
Reserves, Provisions and Balances 2013/14, report to Cabinet, 23 July 2014.
Revenue Budget Outturn 2013/14, report to Cabinet, 23 July 2014.
Quarter One Revenue Budget Monitoring 2014/15, report to Cabinet (Resources) Panel, 29 July 2014.

Agenda Item No: **17**

Wolverhampton City Council

Audit Committee

22 September 2014

Report title	Independent review of process for medium term financial strategy and budget
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Accountable director	Keith Ireland, Delivery
Originating service	Audit
Accountable employee(s)	Mark Taylor — Assistant Director Finance Tel — 01902 556609 Email — Mark.taylor@wolverhampton.gov.uk
Report to be/has been considered by	Strategic Executive Board — 17 July 2014 Confident Capable Council Scrutiny Panel — 10 September 2014

Recommendation(s) for action or decision:

The Committee is recommended to:

1. Review and comment upon the recommendations from the independent review and the action plan developed to address those recommendations.

1.0 Purpose

1.1 To review and follow up the recommendations from the Independent Review of Process for the Medium Term Financial Strategy and Budget.

2.0 Background

2.1 During the 2013/14 budget process there was concern regarding the large deficit that was projected and therefore SEB agreed to commission an independent review of the financial planning and budgeting process.

2.2 The Local Government Association (LGA) recommended a suitably qualified independent reviewer, Eugene Sullivan ex chief executive of the Audit Commission. Eugene Sullivan was engaged for the review and produced his final report on May 2014.

2.3 The final report is attached as Appendix 1.

3.0 Independent Review Report

3.1 The review was conducted using a combination of personal interviews with lead Councillors and officers, plus External and Internal Audit together with a review of the appropriate papers and spreadsheets.

3.2 The results of the review were positive concluding that the approach to five year planning is as good as those seen anywhere else. There is a thorough approach to identifying assumptions and making reasonable (not optimistic or pessimistic) assumptions for the next five years. The financial reports which go to Cabinet are well constructed, well drafted and make good use of narrative, tables and graphics.

3.3 The review made 7 relatively minor recommendations for improvement. These included producing shortened and simplified reports (which has already been implemented) in order to communicate the message more effectively to Councillors and other stakeholders.

3.4 It is recommended that all the recommendations from the review be adopted and that the Action Plan included at Appendix 2 is implemented in order to address those recommendations over the course of next budget cycle.

3.5 The review was commissioned by SEB to provide assurance to officers that the Council's financial planning and budgeting processes are robust. The results of the review are now being communicated to Councillors in order to provide further assurance in this area.

4.0 Financial implications

4.1 There are no direct financial implications arising from this report although the independent review confirms that the Council's financial planning and budgeting processes are robust and implementing the recommendations will further improve financial control.

[NA/10092014/R]

5.0 Legal implications

5.1 There are no direct legal implications arising from the report.
[AS/16092014/Q]

6.0 Equalities implications

6.1 There are no direct equalities implications arising from the report.

7.0 Environmental implications

7.1 There are no direct environmental implications arising from the report.

8.0 Human resources implications

8.1 There are no direct human resources implications arising from the report.

9.0 Corporate landlord implications

9.1 There are no direct corporate landlord implications arising from the report.

10.0 Schedule of background papers

10.1 None.

Appendix 1

WOLVERHAMPTON CITY COUNCIL

INDEPENDENT REVIEW OF PROCESS FOR MEDIUM TERM FINANCIAL STRATEGY AND BUDGET

PREPARED BY
EUGENE SULLIVAN, CPFA (HONS)
30 May 2014 (Amended 11 July 2014)

INTRODUCTION AND CONTEXT

Wolverhampton City Council (WCC), in common with many local authorities and other publicly funded bodies, faces a significant financial challenge caused by the coincidence of reduced sources of funds and increased demand for services, particularly in relation to care of Adults and Looked after Children. In line with good practice WCC maintains a sophisticated financial model to help manage its financial strategy over the medium term (5 years). This model is a dynamic living model which is updated regularly for new circumstances and assumptions. The WCC Cabinet met on 25 February to consider the 5 Year Budget and Medium Term Financial Strategy (MTFS) based on the up to date projections.

The MTFS forecast five year expenditure plans and the resources available to fund those plans. The MTFS showed that expenditure plans exceeded resources by just over £123 million. The MTFS included savings proposals close to £65.0 million. Assuming these proposals are fully achieved, as profiled, the Council needs to identify and achieve further savings of just over £59 million over the five year period.

The scale of the challenge prompted the Council to commission an independent public sector finance professional to conduct a short review and challenge of the Council's MTFS process and projections. The review was not commissioned because of any underlying concern with the MTFS process or the consequential budget and savings plans, which were approved by Council on March 5th. It was commissioned as a high level review (of the main numbers and issues, not a detailed audit of the model, its assumptions and the savings proposals) to assure the Council that the model was reliable and that the savings identified were reasonable in the context of the financial gap. The resource budget for the review was agreed at ten days to review and test:

- The logic of the Council's MTFS
- The reasonableness of assumptions underlying the budget savings figures and construction of the budget (inflation rate pressures, pay awards, demographic changes)
- The budget savings programme for the next five years
- The approach to reserves (both general and earmarked reserves) and provisions.

The independent finance professional was also asked, as a result of his work with WCC and other authorities, to offer suggestions on:

- Areas of the budget that could release further savings
- Ideas where the Council might learn from other councils or public sector bodies.

Methodology

The review was conducted using a combination of personal interviews with key Councillors and officers, plus External and Internal Audit (see Appendix A). I reviewed all relevant papers including the last three iterations of the MTFS (and supporting assumptions and spreadsheets), papers on reserves, Treasury Management and Minimum Revenue Provision. I also read the External Audit Review of the MTFS process dated September 2013.

As requested by the Council, my approach has been challenging, inquisitive and robust.

Acknowledgements

I am grateful to all the people listed on Appendix A who willingly and helpfully spared the time to meet me. Their contribution has helped shape my conclusions, which are entirely my own. I owe special thanks to two people. Nick Alderman, Chief Accountant, was very helpful in producing additional spreadsheets which I requested. He also helped with challenge or corroboration of my interpretation. Karon Brood, Personal Asst to Asst Director, Delivery, was also very helpful in the logistics of this review in terms of diary commitments, office accommodation and facilities.

CONCLUSIONS AND RECOMMENDATIONS

Overview

In drawing my conclusions and recommendations, it is not my wish to criticise the Council or its processes for the MTFS. I remain of the view that its approach to five year planning is as good as I've seen anywhere else. There is a thorough approach to identifying assumptions and making reasonable (not optimistic or pessimistic assumptions) for the next five years. The financial reports which go to Cabinet are well constructed, well drafted and make good use of narrative, tables and graphics.

I have no doubts about the overall accuracy painted by the MTFS model and accompanying reports. The gap between likely revenues (which are forecast to drop) and future spending does not look exaggerated, especially as costs continue to rise with pay and cost pressures and with demographic demand in certain key areas such as Adults Social Care and Looked After Children.

The impact of certain assumptions may prove to be wrong when looked at in retrospect but that is the nature of trying to predict the future. I would not wish to supplant any of the assumptions with alternative suggestions.

Nevertheless I have been encouraged to be challenging, inquisitive and robust. With that mindset I have some reservations about whether the MTFS is more helpful to those who are close to it and own its conclusions than it is to those who are further away from it and are faced with accepting the results without fully understanding or believing them.

I know that Chief Officers and many Councillors will be close to these issues and fully understand them. But I wonder how many interested parties really understand and could explain why a £97.5 million gap over five years in October 2013 became £123 million by January 2014. And why in February 2014, after identifying savings of £65.5 million, the Council still needed to find another £59.2 million.

The remainder of my report covers:

- The MTFS model and four measures to help Councillors to have informed confidence in the model, understand and believe in it and its results. The four main measures are (1) confidence in the model itself, (2) ownership of the assumptions, (3) understanding and believing the results of the model, and (4) due diligence

- I offer two reasons why there is a risk that some Councillors, other interested parties and the public, who are not close to the budget and/or local government finance, may find the model and its messages hard to understand and believe. I also offer approaches which may help
- I comment on the inter-relationship of the key elements of a financial strategy including spending plans, corporate revenue (Revenue Support Grant, Council Tax and others), Fees and Charges, and Reserves
- I offer the view that Fees and Charges are not being given sufficient weight in the overall financial strategy
- I note the Council has a good grasp on the importance and limitations of reserves as part of the financial strategy
- Finally, I address the issues about possible other areas for savings and ideas from elsewhere.

MTFS – The Model

In advance of my first meeting with Chief Officers, I had read several background papers including the last three MTFS reports to Cabinet. My initial impression, based on my background reading of the MTFS reports and related papers, was that the approach by WCC looked exemplary and was among the best I've seen. I remain of that view after my interviews and further research. The approach is in line with good practice and encompasses:

- Medium term financial planning covering the next 5 years
- Regular updates and reports to Councillors
- Savings plans identified, agreed and profiled over the five year period to reflect when savings will be achieved
- The residual gap between available resources and spending plans – for the whole five years, with each year separately identified
- Annual reviews of the level and purpose of reserves (including earmarked reserves) and provisions
- Detailed savings plans by Cabinet portfolio
- Evidence of a reasonable track record on delivering against intentions but inevitably some areas where plans are not fully achieved or were used to address overspending elsewhere.

Even with the above good practice, I believe Councillors, and possibly some Chief Officers, need greater support to help them understand and believe what they are being told. In general, Medium Term Financial Strategy models are by their nature complex and there is a risk that within WCC (and across many authorities) some officers and some Councillors may be relying on trust that the model is reliable and it has been used correctly. In particular WCC should consider four measures to support Councillors and create:

- Confidence in the computer model itself
- Ownership of the assumptions which under pin the projections
- Understanding and belief in the financial results of the model in terms of the main factors which create significant shifts in expenditure plans and available resources
- Assurance for big decisions using independent due diligence reviews.

Confidence in the Model

Within the time available for this review I was not expected to do an audit of the model, the assumptions, the inputs and outputs. However I did consider whether there is good reason for Councillors and Chief Officers to have confidence in the actual model. It has been reviewed by the external auditors and they are satisfied that it is a sound and prudent basis for financial planning. I also spoke to Internal Audit and they raised no concerns about the MTFS model. I have spoken to several people within the Council (officers and Councillors) and none has raised a doubt about the model.

I have reviewed the reports and the spreadsheets. I have sought explanations from Nick Alderman, Chief Accountant. His explanations are always clear, credible and coherent. I have also requested analyses and spreadsheets from certain parts of the model. These have always been produced quickly and are consistent with the main numbers reported by the model. For these reasons, it is reasonable for me to have confidence in the model.

However models tend to get amended over time. Sometimes new assumptions or formulae need to be added or a formula overwritten. Version control is important but these amendments are relatively easy for someone with good spreadsheet skills. There is a risk that such changes can be uncontrolled and human error undetected. Basic errors can creep in such as using a plus instead of a minus, or vice versa, transcribing errors, or wrong cell references. The risk of such errors can be quite high. I have no reason to suspect that any of these risks have crystallised and been left uncorrected. It is more likely that any material errors would be reflected in the results and are likely to be detected because of an unexpected and unexplained material movement in the figures. However the MTFS is the cornerstone of the Council's overall strategy and the basis for major decisions on future services, pay and jobs. Confidence in the model must be assured not assumed.

RECOMMENDATION 1: I recommend a full assurance review of the MTFS model by Internal or external audit in advance of next year's budget setting process.

Own the Assumptions

All medium term financial planning models depend on assumptions about (a) what may happen in the future and (b) the impact of each assumption on income or expenditure. Within the WCC, assumptions are grouped under five main headings:

- Demand changes
- Inflationary pressures on pay (and pensions)
- Inflationary pressures on goods and services including utilities
- Income sources (for WCC this is mainly Revenue Support Grant, Council Tax, Business Rates and Fees and Charges)
- Treasury Management (assumptions about interest charges, debt levels, Capital requirements).

In WCC these assumptions in the MTFS fall into two broad categories:

- General assumptions affecting a range of costs or derived from national data e.g. inflation (see Appendix B for detail of WCC general assumptions)
- Specific assumptions which impact single areas of income and expenditure and are based upon local data (see Appendix C for detail of WCC specific assumptions).

As with any assumptions about the future, there is a degree of uncertainty inherent in the process. For example, even in the age of austerity, there is an expectation that pay and prices will continue to rise. The modelling challenge is deciding 'how much' in each of the next 5 years.

Most models allow for alternative scenarios to be modelled and usually include assumptions which are (a) pessimistic (b) realistic or (c) optimistic. Public sector finance is based on the concept of prudence with public money. Optimistic assumptions can prove reckless, leaving the Council insolvent, and pessimistic assumptions could drive the Council to take unnecessary action which adversely affects service users, council tax payers and employees. For those reasons it is important that the Council is neither optimistic nor pessimistic about future assumptions.

I think more could be done to extend the understanding and ownership of the assumptions beyond the Finance Team to other Chief Officers and Councillors.

RECOMMENDATION 2: I recommend that formal approval of the assumptions, including any future changes when they arise, should include the financial implication of each assumption.

Understand and Believe the Results

It is logical that if officers and Councillors have confidence in the model and approve the assumptions, then they will also own the results. However part of owning the results is the ability to understand and believe the individual causes behind them and the full impact of key assumptions.

The WCC approach to MTFS makes it harder for non financial experts to own the results. The MTFS reports are very thorough and well written. However they are long and technical and more accessible to those who are financially literate. Someone who was not financially literate would understand the gravity of the situation but not necessarily the reasons for it. This is partly because the MTFS is regularly updated and there can be significant movements between reports. For example the five year spending gap rose by £25.46 million between October and January. This was reported to Cabinet on 8 January and explained in paragraph 2.2, Table 1, Appendix A and Appendix B of that report. I am not sure it is easy for all Councillors to convert that information into a clear narrative. It is also quite difficult for Councillors to work out the full five year effect of the latest assumptions because sometimes they are expressed as movements since earlier reports.

In my view there are two related problems which may make it hard for Councillors, other interested parties and the public, who are not close to the budget and/or local government finance, to both understand and accept the nature and scale of the challenge. The first is stakeholders face a moving target occasioned by in year updates of the five year financial strategy. This may have been necessary because of the frequency and timing of changes to assumptions but it can be hard for Councillors outside of Cabinet (Resources) Panel. The second is the tendency to quote total figures for the five years without contextualising that as an average per annum or percentage of total budget. For most people in public life the natural response to challenges is to take on those that are very hard but doable (in the best interests of the public). The risk is when the challenge feels impossible the natural response can be to refuse to engage with the challenge (and for some that can be seen in the best interests of the public).

For example finding a further £25.46 million sounds very daunting for Councillors when the Council has only just recently found two-thirds of the £97.56 million required. However it may not seem so daunting if converted to an annual savings requirement and shown as a percentage of the annual budget.

RECOMMENDATION 3: I recommend:

- **One iteration of the five year projections (around October or November) in advance of setting the budget for the coming year (unless there are major changes to the figures which require urgent consideration)**
- **In-year monitoring of the financial budget for the current year, possibly with a future trends paragraph which might alert Councillors to anything material which might affect future plans**
- **Maintaining the financial model as a live model for S151 and management purposes.**
- **Telling the story and the financial strategy in a way that makes the scale of the challenge clear and unequivocal but achievable with focus and commitment to a common purpose.**
- **Shortening and simplifying budget and financial outturn and strategy reports with financial data and detailed commentary moved to appendices wherever possible to provide greater clarity.**

Due Diligence
Sometimes it is not sufficient to have confidence in the model, own the assumptions and understand the results. The MTFS, the coming year budget and the key savings proposals are all major decisions for the Council. In most organisations, including local authorities, it is normal, in advance of major decisions, to commission a due diligence review.

The essence of due diligence is to commission a review by an independent professional to give a view on the information being presented 'Is it a suitable basis on which to make a decision?'. Independent does not necessarily mean external although that additional level of independence can be seen as more robust.

RECOMMENDATION 4: I recommend that the Finance Department should arrange a suitable and proportionate annual due diligence review (possibly by internal or external audit) to append to its MTFS report to Cabinet.

Fees and Charges
Notwithstanding my comments about the model following good practice, I am not convinced that the Council is properly considering Fees and Charges within its Medium Term Financial Strategy. In Appendix D I set out a summarised approach to determining a MTFS strategy around four main financial elements (A) Spending Plans (B) Revenues from Council Tax, RSG and NNDR (C) Fees and Charges and (D) Use of reserves.

WCC has all of these elements in place, except it does not seem to embrace Fees and Charges as part of its financial strategy. This is surprising given the annual income deriving from such fees (£66 million in 2013/14 – compared to £70 million in 2012/13). The Council regularly reviews the level of fees and charges, and the budgets for fees and charges are within the MTFS. However it does not appear to receive strategic advice on the impact of the level of fees and charges on the total sum that might be raised at given levels level of fees or on its overall approach to income generation. I understand the LGA has a web based resource which might be helpful http://www.local.gov.uk/income-generation.

It is surprising that there is not more scrutiny of the overall importance of Fees and Charges to the MTFS and that charging levels are considered after the budget has been set. In particular the setting of fees and charges does not consider the overall level of income derived from individual charges but focuses on the absolute level of each charge. This, in itself, can lead to undue attention being given to items of lower importance at the expense of a more holistic and strategic view.

RECOMMENDATION 5: I recommend that there should be:

- **greater modelling and economic focus on not just the charge for a service but also the anticipated level of income that might be raised**
- **an explicit focus on fees and charges/income generation in the MTFS**
- **a determination of the fees and charges for the coming year before or when setting the budget.**

Reserves

The Council's reserves can and have been used as part of its MTFS provided they are **only** used to:

- fund a non recurring gap
- or fund a recurring gap for a finite period until a expenditure plans and revenues are brought into balance.

The Council has a clear policy on the minimum level of its level of general reserves which have recently been set at £10 million. The minimum level was adjusted downwards from £15 million to £10 million as part of the October budget setting report following an assessment of the general level of reserves and budget risks by the S151 Officer. The risk assessment noted that there was a reduction in several key budget uncertainties:

- Single status – settlements to be largely resolved in 2013/14
- Equal pay – settlements progressing and uncertainty reduced
- Pay aggregation – HMRC claim has been resolved with nil payment.

Based on these and the overall level of reserves it was assessed that the minimum level of general balance could be reduced. The S151 Officer assessed a prudent reasonable level at £10 million. This level equates to some 4% of net expenditure which is midway in the "unofficial standard" of 3-5% (as noted in the 2012 Audit Commission report on reserves).

The Council also regularly reviews the level of its earmarked reserves and releases them when prudent to do so. There is some limited scope to review earmarked reserves again, with a more stringent approach to identifying what could be released if absolutely necessary; for example, in order to avoid issuing a Section 114 notice. Council Finance Officers assess this scope at a maximum of £12 million. However Council Finance Officers would not recommend using that scope because there would be no contingency left for any unforeseen circumstances (for example this figure includes eliminating the insurance reserve to cover self-insured risks) or slippage in the savings programme. I agree it would not be prudent to reduce earmarked reserves at this time.

It is worthy of note that the revised projected budget deficit for 2014/15 is almost £12 million, subject to identifying further savings plans for 2014/15. The Council's reserves need to be protected as mitigation against any slippage in plans and/or any unforeseeable events.

RECOMMENDATION 6: I recommend current earmarked reserves are preserved as mitigation against any unforeseen pressures in 2014/15.

Challenge to the Budget

The legal framework builds in certain duties on Local Authority Officers and their External Auditors to safeguard against wilful or reckless action by Officers or Councillors. The 1998 Local Government Finance Act, S114(3), is particularly relevant to the duties of the

Section 151 Officer: The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.

There is also a duty on the External Auditor under Section 19 (a) of the Audit Commission Act 1998. He may issue a notice under this section (an advisory notice) if he has reason to believe that the body or an officer of the body:

- is about to make or has made a decision which involves or is likely to involve the body incurring expenditure which is unlawful
- is about to take or has already taken a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

It is a matter for those charged with those duties to decide when and what circumstances to exercise their duty. The budget for 2014/15 has been set and neither party (to the best of my knowledge) has exercised their duty under these clauses. It would appear unlikely that this will apply during 2014/15 unless there is significant in-year budget movement which might trigger their action.

RECOMMENDATION 7: I recommend the Council seeks further clarification from each party as to the triggers for action under these clauses and the process which might follow.

Areas of the Budget that Could Release Further Savings

I was asked to consider whether there were other areas where the Council might release further savings. I offer the following thoughts knowing the Council has already considered (and implemented) some or all them if and will do so again if and when the circumstances are right. The ideas in the current savings plans show the thoroughness of the Council's approach to its savings plans.

In offering these ideas I am not identifying whether I have any special advisory expertise in these areas which would help the Council and I am not offering the suggestions in the hope that I may be offered more work with the Council. I would be prepared to discuss the ideas with officers or Councillors if requested but I would be reluctant to confuse my independent role and any advisory role.

Savings Strategy

The Council has 205 savings ideas in its total savings plan of £65.5 million with 30% due in Year 1. These projects are grouped into programme areas wherever possible and it is important that Executive Directors individually and collectively take responsibility for delivery on these plans and report progress to appropriate that Elected Member meetings. It is important that Councillors are resolute in their continuing support for the measures which will bring the Council's spending plans and resources into balance on a recurring basis. (I understand that about 18 of the projects account for about half of the first year's savings. Executive Directors and Councillors need to closely monitor the large individual projects as well as the overall control total for the year.

In my experience savings projects often fall into three main categories:

- significant corporate and cross cutting projects which are strategically important in their own right and which require close corporate attention
- smaller self contained projects which are owned by a Director or budget holder who is committed to its achievement and to be held to account for it
- good housekeeping – the management of pay and non pay budgets which every budget holder should be held to account for without having to stipulate how it will be achieved and without having to produce monitoring reports to show the progress being made – because the saving is top sliced off their budget and they are held to account for it through budget monitoring. I would suggest a percentage of their budget say 1-2%. If adopted this would instantly transfer some or all of the extra £25.46 million from the need to identify savings ideas into a budget management challenge around good housekeeping. The essence of this approach is ownership by the budget holders who might prefer this delegated responsibility over the challenge of identifying and managing more savings plans.

Minimum Revenue Provision

The Council's Minimum Revenue Provision is £39.9 million, including an HRA provision of £14.3 million. This figure looks high at 5.5% of the Council's Capital Financing Requirement.

The Council's Officers are already aware of the importance of the Minimum Revenue provision and have been considering the potential to release part of the provision. I understand that the Council is in discussions with the External Auditors about approval for a possible change. I am not aware of the detail of the proposed change.

Debt Recovery

I have not looked into the detail but I am aware that the Council may have some old debts particularly in Adult Social Care. Experience elsewhere has shown that Council's can accumulate debts as a result of focusing too much attention on raising the charges and not enough on collection. Old debts are notoriously difficult to collect but experience has also shown that a focused collection and recovery team can produce good results if they analyse the debtors well and target their efforts on those with prospects for collection.

Discretionary Services

I acknowledge the importance to the community, and to the users, of discretionary services. Nevertheless these services can sometimes place a financial burden on the Council which forces it to consider difficult choices. These services can include Libraries, Leisure Centres and Civic Theatres which incur subsidy.

I know from my discussions that Chief Officers and Councillors are willing to consider options for reducing or eliminating council taxpayer subsidy alongside other options for saving money.

Asset Disposal

Asset disposal is also something worthy of consideration and I know it is in included in the Council's thinking. The Council owns several assets, some of which may be tied up in discretionary subsidised services. Taking a view of options which involve removal of subsidy and disposal of the asset may create wider opportunities.

NB: All of these measures involve making choices. The key to good choices is to obtain and focus on relevant information, ignore irrelevant information and make an informed choice.

Ideas where the Council might learn from other councils or public sector bodies

Benchmarking

As a diagnostic tool the Council could usefully use the Audit Commission Profiles to identify areas where the Council's costs and performance do not, at first glance, compare favourably with its comparator authorities. Thereafter the Council may find areas of difference which are worthy of further investigation to identify causes.

Sharing with Neighbouring Authorities

There are undoubtedly opportunities for all councils to share with their neighbours and there are an increasing number of examples of councils willing to consider doing this. However such sharing is not without its difficulties and often there is not enough commitment to a common purpose and the difficulties can become insuperable or not worth the effort. There is even the risk of significant waste of time and money and the concept falls apart because of a lack of consensus. Therefore options for sharing, and partners, should be chosen with care.

The Council should, as I know it is, be open to sharing initiatives, where there is good will and a genuine commitment from another authority to make it work.

Sharing With Other Bodies in Wolverhampton

The same principle applies to other public, or private, bodies within the City. The most likely common purpose would relate to shared services arrangements for common functions such as HR, Payroll, Facilities and others. However the prize must be worth the effort and the risk of successfully implementing a sharing arrangement. Potential candidates for such sharing would include Higher Education, Further Education and NHS. The NHS may be more logical partners for many things with the advent of the Better Care Fund and NHS England's commitment to strengthening local health economies, in conjunction with Local Health and Wellbeing Boards.

Commissioning

There are some who argue that the duty of a council is to commission services for its residents and users and not necessarily to be the provider of the service. There are models of this across the country. In such an arrangement the Council would seek bids from a suitable provider of services against a specification and contract which ensured delivery and quality to secure payment, including the possibility of a 'payment by results' contract.

There are logistical, political, organisational and people issues implicit in such a choice. However the benefits can be considerable (often across all four of those issues) and more certain than other reconfiguration options.

I am aware that the Council has recently approved a significant procurement and outsourcing programme. The independent business case to support this programme highlights procurement is the most certain route to achieve the highest savings. It is important for Officers and Councillors to maintain the timetable for this procurement to maximise the savings.

Eugene Sullivan, CPFA (Hons) 30 May 2014 (Amended 11 July 2014)

APPENDIX A

Interviews and Documents

Interviewees:

Councillor Roger Lawrence – Leader of the Council
Councillor Andrew Johnson – Cabinet Member for Resources
Keith Ireland – Strategic Director Delivery
Sarah Norman – Strategic Director Community
Tim Johnson – Strategic Director Education and Enterprise
Mark Taylor – Assistant Director Finance
Nick Alderman – Chief Accountant
Peter Farrow – Head of Audit
Richard Vialard/Richard Bacon – PwC

Documents Supplied:

Community Directorate – Summary of Savings Plans 2014-19
Wolverhampton Labour Budget Message Card
Cabinet – 25/2/14 – Treasury Management Strategy 2014/15
Cabinet – 26/2/13 – Treasury Management Strategy 2013/14
Cabinet (Resources) Panel – 11/3/14 – Fees and Charges Review 2014/15
Cabinet - 25/2/14 – Five Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19
Cabinet – 4/3/14 – Deloitte LLP – In-house Service Options Appraisal
Specific Reserves Working Group – 16/1/14 – Review of Specific Reserves
Cabinet – 25/2/14 – Capital Programme 2013/14 to 2017/18 Quarter Three Review and 2014/15 to 2018/19 Budget Strategy
Cabinet (Resources) Panel – 11/3/14 - Revenue Budget Monitoring 2013/14 Quarter Three
Cabinet – 24/7/13 – Reserves, Provisions and Balances 2012/13
Cabinet – 24/7/13 – Draft Budget Strategy 2014/15 and Medium Term Financial Strategy
Cabinet – 23/10/13 – Five Year Budget and Medium Term Financial Strategy 2014/15 to 2018/19
Cabinet – 8/1/14 – Five Year Budget and Medium Term Financial Strategy 2014/15 To 2018/19

APPENDIX B

Budget and MTFS Assumptions

General Assumptions
General assumptions are as listed in and Appendix D to the budget report to Cabinet and are attached to this document.

The basis for these is as follows:

Council Tax Increases: 2% annually as per current referendum limit

Council Tax Base: 0.5% annual growth in line with recent new build data and with the New Homes Bonus estimates

Cost price inflation (excl. utilities and NNDR): 0% as it is assumed that all costs will remain flat with improved procurement offsetting any inflationary pressures

Cost price inflation – Gas: 5.7% annually, based on recent trends.

Cost price inflation – Electricity: 2.5% annually, based on recent trends.

Cost price inflation – NNDR: 3.9% set at 2013 RPI level as although capped at 2% the difference is to be funded by Central Government. Based upon current inflation rates this rate may need revisiting and reducing in future iterations to reduce inflation level.

Growth in NNDR tax base – 0.1% for 14/15, 0.2% thereafter. Little growth as experienced in recent trends in local economy.

Increase in Top-up grant – 2.0% in 14/15, 3% in 15/16, 4% in 16/17 & 17/18, 0% in 18/19. These are uprated annually by the increase in the small business rates multiplier (previously by inflation). 14/15 and 15/16 are based on the settlement figures. Thereafter on estimates that will be reviewed on MTFS refresh – risk is to the downside.

Decrease in RSG – reductions for 14/15 and 15/16 of 16.9% and 29.2% reflect the settlement figures. Reductions thereafter are predicated on further cuts in Government spending (as confirmed by the chancellor further £25 billion in the next spending round). Reductions are in line with the LGA projections and comparable with local equivalents although some forecasts put the reductions far greater. Balanced risk based on current knowledge.

APPENDIX C

Budget and MTFS Assumptions

Specific Assumptions

The following are the significant specific income/expenditure assumptions made in the budget and MTFS. Apart from the specific growth elements identified below there are no other predicted growth in expenditure arising from specific cost pressures.

New Homes Bonus - estimated based upon new build forecast data supplied by the strategic planning department. The figures are slightly greater than those recently achieved. This data has also been fed in to the tax base data to ensure consistency. The NHB adjustment grant has been calculated based upon the LG Futures forecast of the national new homes bonus calculations.

Fees & Charges – no increase in fees and charges has been budgeted as the agreed figures were not available when the budget was prepared. Fees and charges have been analysed separately for review.

Looked after Children – an increase over the 2013/14 base budget of £7.5 million has been included to bring expenditure up to current levels (£2.5 million of this held separately as a corporate contingency). Numbers are continuing to rise and there is a potential downside risk.

Adult Social Care – growth of £2 million per annum has been included, although from 2015/16 onwards this is assumed as met from the Better Care Fund (i.e. net growth of £nil). This growth is based on a forecast prepared by LG Futures for Wolverhampton showing demographic growth of c. £400,000 per annum together with internally calculated additional transition costs (young people transitioning to the adult care system) of £1.1 million. The balance of £0.5 million is to fund other growth pressures in the service.

Care Bill – there is no growth reflected in the budget/MTFS for additional costs arising from the Care Bill. At the time of preparation these were unquantified and assumed to be met by additional funding. The costs have now been estimated at £2.5-£3.0 million in the first year (2016/17) rising to £4 million per annum over the medium term. The funding for these additional costs is not yet clear but is a significant downside risk.

APPENDIX D

Approach to Setting a Medium Term Strategy

The Medium Term Financial Strategy is always a balance between the spending plans and the resources available to fund it. It is prudent also to consider the going concern issue and therefore plan to have a positive balance sheet, including cash and short term liquid assets. It is not easy to get the balance right and it is important to control those things which you can control. The basic approach is to determine:

- **A** - How much will be spent on providing current and future services bearing in mind both price and demand growth. The Council is not wholly in control of this figure because there are things which must be done (statutory) and things that are desirable do (discretionary). Most Council's are forecasting increased demand in the statutory areas of Adult Social Care and Looked after Children. Expenditure plans are further complicated by the fact that the Council may be able to influence future levels of spend by managing demand and/or altering delivery mechanisms – but need time to change or transform the ways services are currently configured and provided
- **B** - How much resource can be raised from statutory sources Council Tax, Grants, NNDR
- **C** - How much can be raised from Fees and Charges (a complex matter in which the Council can control the level of the charge but cannot control demand – and for some services increased charges will adversely affect demand
- **D** – Use of reserves

If A is greater than the sum of B and C (after the Council is satisfied that none of the figures can be realistically or prudently improved) then the Council has an 'expenditure gap'. If the gap is recurring action needs to take action to bring income and expenditure into balance as quickly as possible. If that can't be done within the financial year the Council will need to use reserves (D) where available – but this must always be seen as a measure which only buys time to find sustainable solutions. It is not a sustainable solution in itself.

The plan which brings expenditure plans and resources into balance is called different things - a savings strategy, improvement programme or cost reduction programme. It is crucial that the savings strategy is realistic and is properly managed and profiled to ensure the delivery of the plan.

Independent review of process for medium term financial strategy and budget
Action Plan to Implement Recommendations

Recommendation	Action	Responsible	Date
1. A full assurance review of the MTFS model by Internal or external audit should be undertaken in advance of next year's budget setting process	Internal audit to undertake assurance review of MTFS model	Head of Audit	30 September 2014 and then annually
2. Formal approval of the assumptions, including any future changes when they arise, should include the financial implication of each assumption.	Formal approval of assumption is already sought, this will however be enhanced and included in the October budget report to Cabinet, in order to make even clearer what has changed and what this impact was.	Chief Accountant	31 October 2014 and then ongoing

Recommendation	Action	Responsible	Date
3. Only one iteration of the five year projections (around October or November) should be reported to Councillors in advance of setting the budget for the coming year (unless there are major changes to the figures which require urgent consideration)	The five year projections will remain under constant review and all reports will make reference to the extent of the challenge over the five year period, the main focus will however be on the following financial year. This will ensure that that Councillors are able to make fully informed medium term focussed decisions. The number of iterations of the five year projections that are reported will depend on the significance of the changes between each reporting period.	Chief Accountant	31 October 2014 and then ongoing
4. In-year monitoring of the financial budget for the current year should also possibly include a future trends paragraph which might alert Councillors to anything material which might affect future plans	Quarterly monitoring reports will continue to focus upon the current financial year with a future trends paragraph included where and when appropriate	Chief Accountant	31 July 2014 and then ongoing
5. The financial model should be maintained as a live model for the Section 151 Officer and management purposes	The MTFS will continue to be maintained as a live model with regular updates provided to the Section 151 Officer	Chief Accountant	Ongoing

Recommendation	Action	Responsible	Date
6. The story and the financial strategy should be told in a way that makes the scale of the challenge clear and unequivocal but achievable with focus and commitment to a common purpose.	Templates for reports and presentations will be reviewed, Communications and Democratic Services colleagues will be consulted as part of this review in order to ensure that the key messages and actions are communicated as clearly as possible This has already been actioned for the 25 June 2014 Cabinet report.	Chief Accountant	31 July 2014 and then ongoing
7. Budget and financial outturn and strategy reports should be shortened and simplified, with financial data and detailed commentary moved to appendices wherever possible to provide greater clarity.	Templates for reports and presentations will be reviewed, Communications and Democratic Services colleagues will be consulted as part of this review in order to ensure that the key messages and actions are communicated as clearly as possible This has already been actioned for the 25 June 2014 Cabinet report.	Chief Accountant	31 July 2014 and then ongoing
8. The Finance Department should arrange a suitable and proportionate annual due diligence review (possibly by internal or external audit) to append to its MTFS report to Cabinet.	Due diligence review to be undertaken annually by internal audit to validate methodology and assumptions used	Head of Audit	December 2014 and then annually

Recommendation	Action	Responsible	Date
9. For fees and charges there should be: • greater modelling and economic focus on not just the charge for a service but also the anticipated level of income that might be raised • an explicit focus on fees and charges/income generation in the MTFS • a determination of the fees and charges for the coming year before or when setting the budget.	Fees and charges to be set prior to the final budget being reported to Cabinet during February each year. The process will include volume/demand modelling in significant areas as well as consideration of the absolute level of income generated	Chief Accountant	December 2014 and then annually
10. Current earmarked reserves should be preserved as mitigation against any unforeseen pressures in 2014/15.	At the end of 2013/14 earmarked reserves were higher than had been projected during the year, this will be formally reported to Cabinet in July. Earmarked reserves will continue to be reviewed on a regular basis, including an annual review by Scrutiny, in order to ensure that what is being held is both robust and prudent.	Chief Accountant	Ongoing
11. The Council should seek further clarification from the Section 151 Officer and the External Auditor as to the triggers for action under relating to Section 114 and Section 19 powers.	Section 151 Officer and External Auditor to discuss and document the triggers before reporting to Senior Management and Councillors	Assistant Director Finance	31 July 2014

This page is intentionally left blank