



Our ref: CoWC2021

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3 February 2021

Dear Claire,

City of Wolverhampton Council Financial Statements for the year ended 31 March 2021

As part of our audit of City of Wolverhampton's financial statements for the year ended 31 March 2021, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in City of Wolverhampton Council's financial statements this year. We do this to maintain our understanding of City of Wolverhampton Council and to comply with International Auditing Standards (ISAs (UK)), including the revised standards that apply to our 2020/21 audit for the first time.

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. [ISA \(UK\) 540 \(Revised\) Auditing Accounting Estimates and Related Disclosures](#) (revised in December 2018) is effective for audits of financial statements for periods beginning on or after 15 December 2019. The revised standard requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements could you, please add and complete an additional schedule for that estimate.

I would be grateful for your responses, if possible, by the 24th February to help inform our risk assessment and planning of our 2020/21 audit of the Council's financial statements, and to allow us time to review and agree ahead of Audit Committee on 8 March.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Nicola Coombe
Manager

Property, plant, and equipment valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that valuations do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this, valuations are carried out by external registered Royal Institution of Chartered Surveyors (RICS) valuers, in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. Following this, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations, queried and discussed with the valuers.</p> <p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<ul style="list-style-type: none"> • Other land and buildings including surplus assets are valued: <ul style="list-style-type: none"> - annually at fair value or depreciated replacement cost, for assets over £1 million. - as part of a 5-year rolling programme at fair value or depreciated replacement cost, for assets under £1 million. • Community assets, vehicles, plant and equipment, infrastructure and assets under construction are valued at depreciated historical cost. • Intangibles are valued at amortised cost • Garages are valued annually • The Council monitors the value of assets that have been revalued over the last five years, to ensure all assets have been revalued within this five-year timeframe. • Valuers undertake an impairment review to ensure assets not valued haven't materially changed in value and that assets which have been valued, haven't changed in value between the date they were valued (usually January) and year end (31 March). • No changes are anticipated to these methods or models in 2020-2021.
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions are selected by the valuer in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. Management review these assumptions and challenge where necessary.</p> <p>No changes are anticipated in 2020-2021.</p>

<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>An annual reconciliation is undertaken between the Fixed Asset Register in the financial system (Agresso) and the database (SAM) used by the Estates team. Any discrepancies are investigated and rectified. This ensures that the source data provided to the valuer is accurate and that all additions and disposals have been included.</p> <p>Plans, tenancy schedules (from the Estates team), car parking rental income (from Strategic Finance) and pupil numbers (from the School Organisation and Support team) are also provided to valuers.</p> <p>No changes were made to the source data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>The valuer advises on the accounting estimates used in the valuations.</p> <p>The valuer is sourced through a tender process.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>As detailed in Q1, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations, queried and discussed with the valuers.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>The robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March.</p> <p>Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>This year, as well as Strategic Finance reviewing the revaluations and assumptions, the Estates team will also undertake a more in-depth review. As the Estates team officers are RICS registered valuers this extra scrutiny will help to ensure the robustness of figures included in the Statement of Accounts. Formal sign off by all parties.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in other land and buildings values.</p> <p>Management also monitor the impact of COVID-19 and in 2019-2020, the valuers alerted management to the fact that valuations had been reported on the basis of "material valuation uncertainty".</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>For the 2020-2021 valuations, officers will work with the valuer to assess how sensitive the values are (e.g. to factors like build rates, rental income) and consider widening the sensitivity range in the analysis.</p>

Council Dwellings valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that valuations do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this, valuations are carried out by external registered RICS valuers, in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. Following this, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations, queried and discussed with the valuers.</p> <p>The outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>Dwellings undergo a full valuation every 5 years including site visits by a qualified registered RICS valuer.</p> <p>In terms of method, a beacon valuation approach is used. The dwellings are divided into asset groups (a collection of property with common characteristics such as sheltered housing). Asset groups are further subdivided into archetype groups based on uniting characteristics material to their valuation, such as numbers of bedrooms. The archetype groups are valued on the beacon principle. A sample property, "the beacon" is selected which is representative of the archetype group and a detailed inspection carried out. The beacon property is valued on an existing use-social housing basis. This valuation is defined as the 'Beacon Valuation'.</p> <p>In between full valuations, the valuer uses comparables for that year whilst also taking into account knowledge of the market or specific information on individual assets.</p> <p>No changes are anticipated to these methods or models in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions used by the valuer are in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>No changes are anticipated in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>An annual reconciliation is undertaken between the Fixed Asset Register in the financial system (Agresso) and the database (SAM) used by the Estates team. Any discrepancies are investigated and rectified. This ensures that the source data provided to the valuer is accurate.</p> <p>No changes were made to the source data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>The valuer advises on the accounting estimates used in the valuations.</p> <p>The valuer is sourced through a tender process.</p>

<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>As detailed in Q1, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations queried and discussed with the valuers.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>The robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March.</p> <p>Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>For the 2020-2021 financial statements, officers will benchmark the valuation outcome of the Council's housing portfolio with other Councils.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in council dwellings values.</p> <p>Management also monitor the impact of COVID-19 and in 2019-2020, the valuers alerted management to the fact that valuations had been reported on the basis of "material valuation uncertainty".</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>For the 2020-2021 valuations, officers will work with the valuer to assess how sensitive the values are (e.g. to factors like build rates, rental income) and consider widening the sensitivity range in the analysis.</p>

Investment Property valuation estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that valuations do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this, valuations are carried out by external registered RICS valuers, in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. Following this, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations queried and discussed with the valuers.</p> <p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>Investment properties (including shops) are valued annually at fair value or depreciated replacement cost by qualified valuers.</p> <p>Valuers undertake an impairment review to ensure that assets which have been valued haven't changed in value between the date they were valued (usually January) and year end (31 March).</p> <p>No changes are anticipated to these methods or models in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions used by the valuer are in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>No changes are anticipated in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>An annual reconciliation is undertaken between the Fixed Asset Register in the financial system (Agresso) and the database (SAM) used by the Estates team. Any discrepancies are investigated and rectified. This ensures that the source data provided to the valuer is accurate.</p> <p>Strategic Finance, with the Estates Team review the list of investment properties to check whether there are any with split purposes, e.g. part regeneration, part commercial. During the year the Regeneration team will also review the list. Green proformas are also sent to Finance officers prior to year-end, asking them if they are aware of any assets which may need to be reclassified.</p> <p>No changes were made to the source data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>The valuer advises on the accounting estimates used in the valuations.</p> <p>The valuer is sourced through a tender process.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>As detailed in Q1, the asset revaluations are critically reviewed by the Strategic Finance team with any significant variances from previous valuations or expectations, queried and discussed with the valuers.</p>

<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>The robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March.</p> <p>Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>This year, as well as Strategic Finance reviewing the revaluations and assumptions, the Estates team will also undertake a review. As the Estates team officers are RICS registered valuers, this extra scrutiny will help to ensure the robustness of figures included in the Statement of Accounts. Also, this year, because of the Covid-19 pandemic, the impact of rentals on valuations will be considered more fully.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in investment property values.</p> <p>Management also monitor the impact of Covid-19 and in 2019-2020, the valuers alerted management to the fact that valuations had been reported on the basis of "material valuation uncertainty".</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>For the 2020-2021 valuations, officers will work with the valuer to assess how sensitive the values are (e.g. to things like build rates, rental income) and consider widening the sensitivity range in the analysis.</p>

Depreciation estimate

Question	Management response														
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that the economic lives used in the calculation do not accurately reflect the lives of the assets and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this, an external registered RICS valuer reviews the lives selected by the Council and Strategic Finance annually inform the valuer of dilapidated or damaged assets.</p> <p>There is also a risk that the method of depreciation is inappropriate (e.g. straight line). To mitigate this, depreciation methods are also discussed with the valuer.</p>														
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>Useful economic life is assessed when valuations are carried out. In addition, a list of assets is sent to service managers annually to obtain an update on dilapidated or damaged assets.</p> <p>Property, plant and equipment assets are depreciated on a straight-line basis over the estimated useful economic life of the asset. Council dwellings are depreciated according to the useful economic life of their major components. Intangible assets are amortised on the straight-line basis over the estimated useful economic life of the asset. No depreciation is charged on investment properties, heritage assets or land. The following asset lives are used to determine the depreciation charge:</p> <table data-bbox="783 1093 1235 1413"> <tbody> <tr> <td>Council Dwellings</td> <td>Up to 30 years</td> </tr> <tr> <td>Infrastructure assets</td> <td>1-49 years</td> </tr> <tr> <td>Surplus assets</td> <td>1-49 years</td> </tr> <tr> <td>Other buildings</td> <td>1-57 years</td> </tr> <tr> <td>Plant and equipment</td> <td>1-45 years</td> </tr> <tr> <td>Vehicles</td> <td>1-7 years</td> </tr> <tr> <td>Intangible assets</td> <td>1-5 years</td> </tr> </tbody> </table> <p>No changes was made to this method or model in 2020-2021.</p>	Council Dwellings	Up to 30 years	Infrastructure assets	1-49 years	Surplus assets	1-49 years	Other buildings	1-57 years	Plant and equipment	1-45 years	Vehicles	1-7 years	Intangible assets	1-5 years
Council Dwellings	Up to 30 years														
Infrastructure assets	1-49 years														
Surplus assets	1-49 years														
Other buildings	1-57 years														
Plant and equipment	1-45 years														
Vehicles	1-7 years														
Intangible assets	1-5 years														
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions used by the valuer are in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.</p> <p>No changes are anticipated in 2020-2021.</p>														
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>An annual reconciliation is undertaken between the Fixed Asset Register in the financial system (Agresso) and the database (SAM) used by the Estates team. Any discrepancies are investigated and rectified. This ensures that the source data provided to the valuer is accurate.</p> <p>No changes were made to the source data in 2020-2021.</p>														

<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>Valuers review the lives of assets and depreciation method.</p> <p>The valuer is sourced through a tender process.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>As detailed in Q1, an external registered RICS valuer reviews the lives selected by the Council and Strategic Finance annually inform the valuer of dilapidated or damaged assets.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, the robustness of the key controls are assessed by internal audit as part of the annual Fixed Assets audit, undertaken annually in February/March.</p> <p>Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>This year, as well as Strategic Finance reviewing the asset lives provided by the valuer, the Estates team will also undertake a review. As the Estates team officers are RICS registered valuers, this extra scrutiny will help to ensure the robustness of figures included in the Statement of Accounts.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management do consider the estimation uncertainty, for example in 2019-2020, assets were valued in January but depreciated from April in line with policy. Officers calculated the impact of three months less depreciation, but this was found to be immaterial.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>For the 2020-2021 valuations, officers will work with the valuer to assess how sensitive depreciation is to changes in asset values and changes in remaining useful life and consider widening the sensitivity range in the analysis.</p>

Valuation of Defined benefit net pension liability estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that the pension liability estimate is inaccurate and therefore the Financial Statements do not give a true and fair view.</p> <p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the pension fund's property valuation report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>The liability estimate is calculated by an actuarial expert, taking into account changes in retirement ages, mortality rates and discount rates.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>The actuary selects the assumptions and management reviews the reasonableness of these assumptions.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>The Pension Fund provides data on pension benefits and membership numbers, to enable the actuary to undertake their estimate.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>An actuary advises on the accounting estimates.</p> <p>The actuary is procured through a tender exercise.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Management review the assumptions and officers discuss these assumptions with the West Midlands Accountancy Officers group, comprising of nine other authorities, to ensure a consistent view.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes. As detailed in Q6, in addition to management reviewing the assumptions, officers discuss these assumptions with the West Midlands Accountancy Officers group comprising of nine other authorities, to ensure a consistent view.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the pension fund's property valuation report in 2019-2020.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>The actuary provides sensitivity analysis for several assumptions including discount rate and life expectancy of scheme members.</p>

Level 3 estimate – Birmingham airport

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that valuations do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>To mitigate this, valuations are carried out by external valuer ('BDO'), in accordance with the Code of Practice on Local Authority Accounting. Following this, the asset revaluations are critically reviewed by Solihull Council (as lead authority) and the City of Wolverhampton Council's Strategic Finance team, with any significant variances from previous valuations or expectations, queried and discussed with Solihull Council.</p> <p>The outbreak of Covid-19 has impacted on the global financial markets and market activity. A material valuation uncertainty was disclosed in the property valuer's report in 2019-2020.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<ul style="list-style-type: none"> • The shares are not quoted on a stock exchange. On behalf of the West Midlands Authorities, Solihull Council usually undertakes a valuation review using Level 3 Inputs using an Earnings Based Approach. Earnings multiples are based on an average of the lower-quartile earnings and transaction multiples for the industry. The valuation is then reviewed by external valuer BDO. • However, for 2019-2020, BDO led on the valuation in detail, as it was felt that the unique circumstances called for a more in-depth valuation which Solihull Council then reviewed, before it was shared with all partners for comment/challenge. • No changes are anticipated to these methods or models in 2020-2021.
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions are selected by the valuer in accordance with the Code of Practice on Local Authority Accounting. Strategic Finance review these assumptions and challenge where necessary.</p> <p>No changes are anticipated for 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>Solihull Council, as lead authority, source data from Birmingham Airport Holdings Ltd regarding the financial position and statements.</p> <p>BDO then used their available data to source comparative information and any other additional information to inform the valuation.</p> <p>No changes are anticipated to be made to the source data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>The valuer advises on the accounting estimates used in the valuations.</p> <p>The valuer is sourced through a tender process.</p>

	The contract is solely with Solihull Council, but there is approval for them to share their findings with City of Wolverhampton Council.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	As detailed in Q1, the asset revaluations are critically reviewed by Solihull Council (as lead authority) and the City of Wolverhampton Council's Strategic Finance team, with any significant variances from previous valuations or expectations, queried and discussed with Solihull Council.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?	Yes, valuations are carried out in accordance with the Code of Practice on Local Authority Accounting. Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.
8. Were any changes made to the key control activities this year? If so, please provide details.	This year, as well as Strategic Finance reviewing the revaluations and assumptions, sensitivity analysis will be explored with Solihull Council.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Management consider the estimation uncertainty and calculate the impact of a 1% or 5% fluctuation in other land and buildings values. Management also monitor the impact of Covid-19 and in 2019-2020, the valuers alerted management to the fact that valuations had been reported on the basis of "material valuation uncertainty".
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	For the 2020-2021 valuations, officers will work with Solihull Council to assess how sensitive the values are and consider widening the sensitivity range in the analysis.

Credit loss and impairment allowance estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	There is a risk that actual collection rates and level of bad debt write-offs vary compared to predicted levels. The measures outlined in Q5 and Q9 below help mitigate against this.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?	Expected credit losses are recognised on all financial assets held at amortised cost (or where relevant Fair Value through Other Comprehensive Income (FVOCI)). Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. No changes were made to these methods or models in 2020-2021.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?	Management select the assumptions based on historical trends or known experience. Factors taken into account are business failure scores from Creditsafe (showing probability of failure), repayment profiles, knowledge of the customer's finances (cash flow, profits, funding), knowledge of the wider economy and its impact on the customer. The business rates appeal provision is calculated using the Valuation Office list of ratings appeals data. The impact of Covid-19 is also taken into account. Assumptions are currently being reviewed and will continue to be monitored through year end.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?	Source data comes from the financial system (Agresso). No changes were made to the source data in 2020-2021.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?	The Council's Head of Revenues and Benefits provides intelligence on categories of debt. Strategic Finance consider this intelligence to check it is in line with their own thinking and understanding. Internal audit are also used to provide additional insight through their research on particular companies, e.g. using Creditsafe.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	The credit loss and impairment allowance is calculated quarterly by a Finance Business Partner and reviewed by the Chief Accountant.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?	Yes, the Chief Accountant and Director of Finance review the estimates made and assumptions underpinning these.
8. Were any changes made to the key control activities this year? If so, please provide details.	No

<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Historical trends over the last 5 years have been considered and compared to current predictions.</p>
<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>Sensitivity analysis is also undertaken around collection rates.</p>

Liabilities under PFI schemes estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that the values of the liability do not accurately reflect the market and the Statement of Accounts therefore do not give a true and fair view.</p> <p>The fair values of the liabilities are calculated by an external company and reviewed by Strategic Finance.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>The accounting entries are derived from the PFI accounting models which were prepared, based on the operator's financial model, at the commencement of the various schemes.</p> <p>There were no changes made to these methods or models in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions were selected by the external consultant when the PFI model was set up on commencement.</p> <p>Assumptions for the liabilities are also selected by the external company valuing the fair value of the liabilities.</p> <p>No changes are anticipated to be made to these assumptions in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>The value of the outstanding liabilities, as well as start and end dates of the contracts are provided to the external company, to enable them to estimate the fair value of the liabilities.</p> <p>Other than the annual payments, no significant changes are anticipated to be made to this source data in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>A consultant advised on the PFI contracts and provided the financial models.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>As detailed in Q1, the fair values of the liabilities are calculated by an external company and reviewed by Strategic Finance.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, Strategic Finance also uses Grant Thornton's control matrix which includes reconciliation and verification checks.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>No</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>The external company compares the interest rate built into the model, to PWLB rates and Market Debt rates. For 2020-2021, officers will work with the external company to further consider estimation uncertainty.</p>

<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>For 2020-2021, officers will work with the external company to assess how sensitive the liability estimate is and consider the sensitivity range.</p>
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Financial Guarantees estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that the financial guarantee estimates are insufficient should the organisations fail.</p> <p>To mitigate this risk, various factors are considered in determining the probability of the guarantees being called upon, including risk of failure of the business as informed by Creditsafe Business Failure Scores and membership profiles.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>Management apply the various factors above in the liability adequacy test outlined in the Code of Practice on Local Authority Accounting.</p> <p>No changes are anticipated to be made to these methods or models in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Management select the assumptions based on knowledge of the organisations and factors in Q1.</p> <p>Assumptions will be reviewed as part of the closedown assessment of guarantees.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>The source data comes from the Council's financial system (Agresso) and Creditsafe's website.</p> <p>Apart from any updates (e.g. Creditsafe Business Failure Scores), no changes to the source data are anticipated for 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>The pension fund provides data on pension guarantees. Creditsafe provides business failure scores.</p> <p>For other guarantees, the Director of Finance reviews the organisation's audited statement of accounts and management financial reports to arrive at an estimate.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>The actuary has advised on quantification of potential liabilities.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes, the Chief Accountant and Director of Finance review the estimates made and assumptions underpinning these, also using their knowledge of the organisations.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>The Head of Governance will also be reviewing the financial guarantees for 2020-2021 from a governance point of view.</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Management consider the impact of providing for these guarantees at various levels (e.g. 5% to 100% provision), discussing and agreeing the appropriate and prudent level of provision.</p>

<p>10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?</p>	<p>Sensitivity analysis is undertaken as outlined above.</p>
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Accruals estimate

Question	Management response
<p>1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?</p>	<p>There is a risk that accruals estimates are inaccurate and therefore the Financial Statements do not give a true and fair view.</p> <p>Management monitor and review through monthly budget monitoring and the outturn position at year end.</p>
<p>2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used?</p> <p>Were any changes made to these methods or models in 2020/21, and if so, what was the reason for the change?</p>	<p>There are a range of methods used across Strategic Finance. In addition, as referred to under Q8, the new approach to be taken for 2020-2021 will inform on this.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>3. How do management select the assumptions used in respect of this accounting estimate?</p> <p>Were any changes made to these assumptions in 2020/21, and if so, what was the reason for the change?</p>	<p>Assumptions are selected in a range of ways across Strategic Finance. The new approach (referred to under Q8) to be taken for 2020-2021 will inform on this.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>4. How do management select the source data used in respect of this accounting estimate?</p> <p>Were any changes made to this source data in 2020/21, and if so, what was the reason for the change?</p>	<p>Source data is selected in a range of ways across Strategic Finance. The new approach (referred to under Q8) to be taken for 2020-2021 will inform on this.</p> <p>No changes are anticipated to this method or model in 2020-2021.</p>
<p>5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so, how were these specialist skills procured?</p>	<p>We are not currently aware of any specialised skills or knowledge used.</p>
<p>6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?</p>	<p>Management monitor and review through monthly budget monitoring and the outturn position at year end.</p>
<p>7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so, how is the robustness of the key controls assessed?</p>	<p>Yes. As detailed in Q6, management monitor and review through monthly budget monitoring and the outturn position at year end.</p>
<p>8. Were any changes made to the key control activities this year? If so, please provide details.</p>	<p>For 2020-2021, the proformas which are sent to Strategic Finance asking them to inform on various items for year-end accounts, now includes a question on estimates, asking officers to inform on any estimates they make (in particular those which are complex and require significant judgements, or where a third party is used).</p>
<p>9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?</p>	<p>Following feedback on the proformas, Strategic Finance will focus consideration of estimation uncertainty on those estimates which are complex and require significant judgements, or where a third party is used.</p>

10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?

Following feedback on the proformas, Strategic Finance will consider sensitivity analysis for those estimates which are complex and require significant judgements, or where a third party is used.