Sandwell
Metropolitan Borough Council

Statement of Accounts

2015/16

STATEMENT OF ACCOUNTS
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Independent auditor's report to the members of Sandwell Metropolitan Borough Council

We have audited the financial statements of Sandwell Metropolitan Borough Council for the year ended 31 March 2016 on pages 13 to 95. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Section 151 Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Section 151 Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2016 and of the Council's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 96 to 108 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

Conclusion on Sandwell Metropolitan Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Council's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2015, as to whether Sandwell Metropolitan Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Sandwell Metropolitan Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Sandwell Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit due to work on the WGA Return not being completed by the 22 August 2016

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Andrew Cardoza
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
22 August 2016

By the Section 151 Officer

Summary

Sandwell MBC continues to face an extremely challenging financial position with funding cuts to Local Government set to continue for the remainder of this Parliament.

On 25 November 2015 the Chancellor announced a four-year plan to cut public spending by £20bn. Sandwell MBC is facing a cut in Revenue Support Grant funding of £48m by the end of the current Parliament. When combined with the need to fund increasing costs, the council will have to find savings of £61m across the next 4 years.

The council operates a multi-year budget planning process that gives services the ability to manage budgets across financial years. Those services have delivered savings of £23.198m in 2015/16 and will deliver a further £24.000m of savings in 2016/17.

Key to this process is the flexibility to allow services to retain any budget surpluses that arise. This means that a service that is required to deliver savings across four financial years is able to restructure once, delivering savings earlier than required secure in the knowledge that any surpluses generated are retained by the service.

This approach encourages sensible financial planning; avoids the traditional rush to spend money before the end of the financial year; provides greater security for staff; and helps to ensure that challenging savings targets are achieved.

Many services have delivered their 2016/17 savings early and, as a consequence, have generated surpluses in 2015/16 that will be retained and reinvested in front-line services. The amount to be carried forward to 2016/17 in relation to surpluses achieved cumulatively in 2015/16 and previous years totals £21.644m.

The Accounts

Sandwell Metropolitan Borough Council (SMBC) is a large and diverse organisation with gross expenditure of £825.465m. These accounts are both technical and complex but the information is presented as simply and clearly as possible whilst still complying with International Financial Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting (The Code).

The Statement of Accounts features four main statements reporting on the council's core activities:

- the Comprehensive Income and Expenditure Statement,
- the Balance Sheet,
- the Cash Flow Statement; and
- the Movement in Reserves Statement

The purpose of each is briefly described within this narrative and they are each followed by notes explaining the individual statements.

The main statements are supplemented by two further sections:

- the Housing Revenue Account; and
- the Collection Fund Account.

The Housing Revenue Account reports on the council's activities as a social landlord, whilst the Collection Fund reports on the collection of local taxes and their distribution. Explanations of their purpose and explanatory notes are included with these statements.

The council also produces a simplified set of summary accounts and whilst having no formal legal standing they do provide a clear and concise view of our financial position. The summary accounts will be available on the council's website following Audit Committee approval of the final accounts in August 2016.

1. **Accountability and Financial Reporting**

Local authorities are governed by rigorous legislation and controls to provide stakeholders with the comfort that the council has adequately fulfilled its role in the stewardship of public funds and the safeguarding of assets. As part of this accountability process, the council is required to produce a statement of accounts in order to inform you, as a stakeholder of the council, that public money received has been properly accounted for and spent appropriately, and that the financial standing of the council is sound.

The Statement of Accounts focuses on reporting the financial position of the council in relation to a particular year, it does not aim to fulfil the role of an annual report. This information is provided in other published documents, including the Council Scorecard and Directorate Business Plans 2016/17 – 2019/20.

The council believes that its stakeholders have a right to know what the council is doing, why it is doing it and the progress being made against its objectives. The Scorecard outlines the priorities for improvement and the achievements to date and can be found at www.sandwell.gov.uk/scorecard.

The Directorate Business Plans detail what the objectives and vision of the council are over the next four years and how these will be delivered within the available financial envelope, approved in the medium term financial strategy.

Local electors and taxpayers have statutory rights to inspect the accounts prior to the audit being completed; questions may also be asked of the auditors. The inspection period is advertised in the local press and on the council website. Both the draft and final audited versions of the accounts are also published on the council's website.

2. **Summary of Council's Financial Performance for the financial year 2015/16**

The following summary of the financial performance covers;

- The council's overall performance; and
- The performance of the statutory ring fenced accounts.

2.1 **Council's Overall Performance**

a) Comprehensive Income & Expenditure Statement

This statement shows the cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

In 2015/16 the council's Comprehensive Income and Expenditure Statement shows a surplus in year of £109.098m. This represents the movement in year on the Local Taxpayers Equity and is representative of the balance sheet movement in reserves. (£382.352m as at 31 March 2016 compared to £273.254m as at 31 March 2015).

The council's net approved budget for 2015/16 was £257.466m. The final reported outturn against target budget was a surplus of £13.219m. This represents a surplus of 5.1%. There has been a net increase in general fund balances of £3.054m arising from the surplus but also reflecting the planned use of previous years' revenue surpluses and funding of the capital programme. The council has a comprehensive process of budget monitoring to identify significant financial issues. It takes appropriate action to mitigate any issues which may arise during the year, however with gross council expenditure on services of £825.465m, there are inevitably some individual areas and services which have experienced in year financial pressures, along with areas where savings have been made. Preparations for additional spending reductions required over future years, resulted in the early delivery of savings in some service areas and also unanticipated income received towards the end of the year benefited the council's balances in 2015/16. The following are the main areas where a significant variation to budget was experienced and therefore impacted upon the council's year end position:

- Savings of £11.059m on general fund directorate budgets due to unanticipated income being received late in the year, coupled with the early delivery of 2016/17 savings.
- Surplus of £2.017m against the ring fenced Public Health grant which will need to be carried forward for that specific purpose.
- Non-allocation of contingency budgeted funds saved £2.451m.
- Surpluses against central items of £4.150m and £3.904m savings within treasury management, due to the receipt of a special dividend in relation to the shareholding in Birmingham airport.

These additions to general fund balances were offset by the use of balances in the following areas:

- Revenue carry forwards from previous years of £12.364m used in line with proposals set out in directorate 2014/15 outturn reports.
- Capital Expenditure of £7.101m has also been funded from revenue balances, including expenditure on Wednesbury Leisure Centre, ICT infrastructure and street lighting.
- Expenditure of £1.262m has been funded from centrally earmarked balances.

Full details of the council's treasury management activities for the year are available in the treasury management report that was presented to Cabinet as part of the council's outturn report on 1 June 2016.

b) Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the council as at the balance sheet date. The net assets (assets less liabilities) are matched by the reserves held by the council. In 2015/16 the value of net assets has increased by £109.098m.

The movement on the balance sheet which makes up this is an increase in assets of £43.115m which in the main relates to land and buildings, and a decrease in liabilities of £65.983m, which predominantly relates to a decrease in the overall pension liability of £33.101m as a result of a change in assumptions for discount rates.

The increase in the value of the council's net assets is matched by a £109.098m increase in reserves. The main reason for this is a decrease in the council's pension reserve deficit on the Local Government Pension Scheme.

The overall deficit on the fund represents the difference between the value of the council's pension fund assets as at 31 March 2016 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them.

Statutory arrangements are in place for funding the pension fund deficit based on increased contributions over the remaining working life of employees, as assessed by the scheme actuary. The West Midlands Pension Fund is subject to triennial actuarial valuations, the next one being due as at 31 March 2016 and impacting from 2017/18. The value of the overall scheme deficit along with the payback period will therefore be recalculated at this point (see note 3 Looking Forward).

c) Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the reporting period. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities shows a surplus of £72.440m (surplus of £80.538m in 2014/15) and is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities totalled £71.090m (£46.128m in 2014/15) which represents the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities show a net outflow in 2015/16 of £19.331m (net outflow of £18.226m in 2014/15) and are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the council.

d) Movement In Reserves Statement

This statement shows the movement in year on the different reserves held by the council, analysed into usable reserves (ie those that can be applied to fund expenditure or reduce taxation) and unusable reserves. The Surplus or Deficit on the Provision of Services shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax and dwellings rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

In 2015/16 the council's overall General Fund balance increased by £3.054m to £70.998m. From these balances the council has committed revenue contributions to capital of £12.800m, approved directorate carry forwards of £21.644m (including sums agreed as carry forward in previous years but that as yet remain unutilised) and earmarked other balances of £24.413m in order to mitigate against the current economic environment and ensure that the council remains in a sound financial position. This leaves uncommitted general fund balances of £12.141m which represents a £0.172m decrease from the position as at 31 March 2015 (£12.313m). The council's current financial standing is of particular significance given the difficult financial climate within which the council operates and gives credence to the council's robust financial planning and monitoring processes.

2.2 **Ring Fenced Accounts**

The following is a summary of the financial performance of statutory ring fenced accounts managed by the council. The Housing Revenue Account and School Balances are consolidated into the council's overall financial statements; however the Collection Fund is not.

The Collection Fund account reflects the statutory requirement to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non Domestic Rates. This account is not consolidated into the council's accounts other than the Comprehensive Income and Expenditure Statement which receives a share of the Council Tax and NDR collected.

a) Housing Revenue Account (HRA)

HRA balances have increased in year by £0.044m to £34.721m (£34.677m as at 31 March 2015). Of the £34.721m, £7.100m represents HRA working balances, which are deemed to be prudent based on the council's risk based reserves strategy. £7.200m has been earmarked for specific capital investment, £14.903m for contingencies and carry forward commitments, with the remaining £5.518m representing uncommitted HRA resources.

The HRA also has specific reserves of £2.694m (£2.906m as at 31 March 2015) set aside mainly in relation to future welfare reform initiatives.

The collection rate of housing rents has increased slightly in 2015/16 to 97.03% when compared to 2014/15 (96.93%).

b) School Balances
The overall level of balances increased in year by £4.007m. The Individual Schools Budget (ISB) surplus includes an under spend of £1.171m against the schools budget share and £2.836m against other budgets held by the council on behalf of schools. The net surplus increases the schools balance as at 31 March 2016 to £35.751m.

During 2015/16, 4 schools converted to academy status which will have reduced the overall in year increase to the level of school balances.

c) Collection Fund
The Collection Fund for 2015/16 generated a combined in year deficit of £3.288m across the Council Tax and Non Domestic Rates (NDR) elements. Following the introduction of the revised retained business rates scheme, there is greater incentive for the council to grow business within the borough, however it does also increase the financial risk to the council due to non collection and the volatility of the NDR tax base. The council retains 49% of all NDR received, with the remainder being shared between West Midlands Fire & Rescue Authority (1%) and Central Government (50%).

A Collection Fund balance arises due to differences between the estimated and actual Council Tax and NDR collected. Any balance will be taken into account when calculating the estimates for the following year.

Prior to the revised scheme, NDR did not impact upon the Collection Fund balance as rates collected were paid over to the Government's national pool and redistributed to councils based on population. From April 2013, 50% of all NDR collected is retained locally, therefore performance after this date has a direct impact upon the Collection Fund balance. The Collection Fund is also now liable for the settlement of any successful appeals lodged against the rateable values of businesses, for which a provision of £2.150m is held.

The council continues to perform extremely well in its revenue collection. The in year Council Tax collection rate for 2015/16 was 98.5% (2014/15 98.3%), consistent with performance over the previous four years. The collection rate for Non Domestic Rates was 96.8%, representing a slight decrease on 2014/15 (97.4%).

2.3 Group Accounts

In accordance with International Accounting Standard 27 - Consolidated and Separate Financial Statements and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 the council has carried out an assessment of group relationships with key entities and has concluded that Group Accounts are not required to be prepared for 2015/16.

a) Sandwell Land and Property Company
On 31 March 2011 Sandwell Land and Property Company Ltd was established as a holding company for school assets, for which the council is the sole shareholder. The company currently leases 99 schools out at an annual rent of £1 for a duration of 125 years. Despite the company being a subsidiary of the council, no group account adjustments are required as the substance of these transactions are such that the assets involved have already been recognised within the single entity accounts.

b) Sandwell Inspired Partnership Services

Sandwell Inspired Partnership Services (SIPS) was established on 1 January 2013 as an Industrial and Provident Society for the delivery of educational support services to schools. In assessing its group relationship, the council has determined SIPS to be an associate, however group accounts have not been prepared as there is no material impact to the financial statements of the council.

3. **Looking Forward**

The severity of the budget reductions facing Local Government following the recent four-year funding settlement for 2016/17 to 2019/20 relating to the decline in public expenditure levels over the foreseeable future will mean that the council will continue to be faced with significant budgetary pressures in the medium term.

The ongoing impact of the current economic climate, in particular the outcome of the pension fund actuarial valuation and the national living wage with the associated impact on third party contracts will continue to place potential future pressures and risks upon council resources.

The Business Rates Retention Scheme implemented on 1 April 2013 will continue to provide an incentive for the council to promote economic regeneration, whilst also placing finances at a greater risk to the impact of any economic downturn. The full impact of Welfare Reform and the future introduction of Universal Credit are still yet to be realised. These potential liabilities together with the ongoing reduction in Central Government funding, will continue to pose significant challenges over the coming years. In Summer 2016 the government plans to consult on a proposal for the 100% retention of business rate revenues to fund local services.

The Spending Review made available social care funds of £1.5 billion by 2019-20 for local government, to be included in an improved Better Care Fund (BCF). The BCF will mainly fund the impact of the National Living Wage on the cost of Adult Services. However, the profiling of the funding does not match the costs. In 2016-17 and 2017-18 the BCF will not cover the additional costs of the National Living Wage. The budget pressures arising in 2016-17 and 2017-18 will therefore be funded from balances in order for the council to set a balanced budget in these years.

The West Midlands Pension Fund is subject to triennial review to assess its funding levels and to set both employer future service rates and deficit recovery payments for each of its admitted bodies. A triennial review was completed in 2013 which set contributions for 2014/15 to 2016/17. The economic climate since the previous valuation proved challenging with discount rates used falling significantly short of those anticipated when the valuation was undertaken. This together with the reduction in active membership has had a detrimental impact on the financial position of the Fund for 2014/15 to 2016/17. The full impact of the Actuary recommended increase in future service contributions is included in the budget projections. The Actuary also put forward an immediate 80% uplift in deficit contributions to be made annually by the council in order to recover the projected pension deficit over the next 22 years. Sandwell, together with other metropolitan authorities in the West Midlands has agreed a stepped arrangement to meet this cost in order to ensure it is affordable over the medium term. The stepped arrangements do however produce a difference in the deficit contribution amounts as outlined in the default position recommended by the Funds actuary, and contributions are subject to the outcome of the next triennial valuation in 2016.

The Secretary of State has appointed Eleanor Brazil as Commissioner for Children's Services in Sandwell. In line with the recommendations set out in the Ofsted report of children's social care published on 5 June 2015, the Children's Services Commissioner has taken the following steps:

- To direct and support the improvement of children's social care.
- To review the Council's leadership and management capacity and capability to drive forward the changes necessary to achieve the required standard.

- To make a recommendation to the Secretary of State as to whether alternative delivery arrangements are the most effective way of securing and sustaining improvement.

The Commissioner has provided her report to the Secretary of State and the Council is now in dialogue with the DfE about a range of options for the future delivery of Children's Social Care services.

On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU. No estimate of its financial effect on Sandwell MBC can be made at this time.

Consultation

As part of Sandwell Council's budget planning approach and the further development of the Facing the Future programme, the council sought to gather resident's views on the financial challenges that it faces and identify their priorities for services that should be improved, continued as is, or reduced. As in previous years, the council commissioned Research for Today Ltd. to conduct a budget consultation exercise. The SIMALTO (Simultaneous Multi Attribute Level Trade Off) method asks respondents to make their priorities from a choice of defined alternative levels of each service, allocating a budget of 'points' to their choices. Choices are 'realistic' since the relative savings/extra costs of each different service level are shown to residents, and they only have fixed, constrained budgets to allocate across the competing service levels. This recognises some changes save/cost more than others, and that the same money cannot be spent twice.

The SIMALTO exercise identified the current service levels that could be reduced and cause least 'distress' among residents, as well as the improvements in services, if any, that should take priority. The exercise also determined whether respondents felt that the budget allocations on these services are 'worth the money' they cost. Research for Today carried out 252 interviews in residents' homes across Sandwell, making sure that the sample was representative of the borough's population. Some 124 staff and 93 residents completed the survey online, and a further 77 residents, staff and councillors completed the survey in workshop sessions.

At the beginning of the exercise, respondents were asked how pleased they were with the current level of council services that they currently received. The table below sets out the results over the past three surveys:

Table 11: Results of last three SIMALTO surveys			
Year	% of respondents pleased with council services	% of respondents uncertain	% of respondents unhappy with council services
2015	71%	16%	13%
2012	66%	19%	15%
2009	57%	20%	24%

This table shows that satisfaction with council services have increased since 2009, during the period that the council's spend has reduced by around £132m.

In summary, respondents:

- Prioritised, above all else, retaining the current service level on winter gritting and maintaining education standards in primary schools across Sandwell.

- Would accept a slightly reduced level of service for day services for adults with disabilities, and a reduced service for single homeless people or people who are the subject of domestic violence
- Supported increasing or introducing charges for large events (e.g. Sandwell Show), community meals, day care transport, adult social care enhanced assessment beds and pest control
- Rather than close leisure facilities, would be prepared to pay more for more modern facilities
- Would accept reducing the number of libraries in the borough by closing the least used facilities
- Ranked arts events and galleries as their lowest priority

1. The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer;

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

2. The Responsibilities of the Section 151 Officer

The s151 Officer is responsible for the preparation of the council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), is required to give a true and fair view of the financial position of the council at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this Statement of Accounts, the s151 Officer has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code.

The s151 Officer has also:

- Kept proper accounting records which were up to date;

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Approval of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the authority at the reporting date and of it's expenditure and income for the year ended 31 March 2016.

Gurcharan Singh Sidhu	Darren Carter
Chair, Audit Committee	Section 151 Officer
Sandwell Metropolitan Borough Council	Sandwell Metropolitan Borough Council
18 August 2016	18 August 2016

2014/15 Gross Expenditure £'000	2014/15 Gross Income £'000	2014/15 Net Expenditure £'000		2015/16 Gross Expenditure £'000	2015/16 Gross Income £'000	2015/16 Net Expenditure £'000
120,574	(30,837)	89,737	Adult Social Care	124,933	(40,028)	84,905
17,741	(15,091)	2,650	Central Services to the Public	16,440	(12,448)	3,992
318,156	(264,760)	53,396	Children's & Education Services	313,104	(259,702)	53,402
39,705	(4,206)	35,499	Cultural & Related Services	24,970	(3,488)	21,482
35,902	(7,557)	28,345	Environmental & Regulatory Services	35,975	(7,266)	28,709
19,676	(3,519)	16,157	Highways & Transport Services	19,333	(3,349)	15,984
73,124	(138,140)	(65,016)	Local Authority Housing (HRA)	77,196	(137,265)	(60,069)
153,922	(140,998)	12,924	Other Housing Services	149,656	(141,916)	7,740
16,537	(4,288)	12,249	Planning Services	10,475	(4,056)	6,419
18,353	(19,503)	(1,150)	Public Health	23,836	(24,437)	(601)
25,915	(15,317)	10,598	Corporate & Democratic Core	15,294	(16,829)	(1,535)
23,474	(7,426)	16,048	Non Distributed Costs	14,253	(2,632)	11,621
863,079	**(651,642)**	**211,437**	**Cost of Services**	**825,465**	**(653,416)**	**172,049**
		15,743	Levies			14,951
		2,434	Payments to the Government Housing Capital Receipts Pool			2,752
		5,173	(Gains) / Losses on the disposal of non current assets			2,971
		415	Losses on Revaluation of Assets Held for Sale			19
		734	Losses on Revaluation of Available for Sale Assets			-
		24,499	**Other Operating Expenditure**			**20,693**
		36,646	Interest payable and similar charges			35,243
		22,981	Net interest on the net defined benefit liability (asset)			21,832
		(1,106)	Interest receivable and similar income			(5,630)
		(2,923)	Income and expenditure in relation to investment properties			(2,932)
		(1,992)	Changes in the fair value of investment properties			4,516
		53,606	**Financing and Investment Income and Expenditure**			**53,029**
		(81,281)	Council Tax income			(80,486)
		(49,145)	Retained Business Rates			(50,401)
		(43,793)	Business Rates Top Up			(44,630)
		1,432	Collection Fund Surplus (-) / Deficit			1,641
		(110,831)	Revenue Support Grant			(81,661)
		(28,171)	Capital grants and contributions			(25,600)
		(311,789)	**Taxation and Non Specific Grant Income**			**(281,137)**
		(22,247)	**(Surplus) / Deficit on Provision of Services**			**(35,366)**
		(17,098)	(Surplus) / deficit on revaluation of non current assets			(25,909)
		133,926	Actuarial (gains) / losses on pension assets and liabilities			(47,823)
		116,828	**Other Comprehensive Income and Expenditure**			**(73,732)**
		94,581	**Total Comprehensive Income and Expenditure**			**(109,098)**

The unaudited accounts were issued on 14 June 2016 and the audited accounts were authorised for issue on 18 August 2016.

31 March 2015 £'000		Note ref	31 March 2016 £'000
776,686	Council Dwellings	9	789,330
458,526	Other Land & Buildings	9	498,161
214,781	Infrastructure	9	216,652
23,101	Vehicles, Plant, Furniture & Equipment	9	22,950
19,214	Community Assets	9	19,781
13,112	Assets Under Construction	9	14,064
16,904	Surplus Assets Not Held for Sale	9	12,679
1,522,324	**Property Plant & Equipment**		**1,573,617**
3,923	Heritage Assets	10	3,924
102,113	Investment Properties	11	95,946
1,383	Intangible Assets	13	2,209
22,164	Long Term Investments	15	22,164
3,973	Long Term Debtors	-	3,901
1,655,880	**Long Term Assets**		**1,701,761**
23	Short Term Investments	15	25,048
1,465	Assets Held for Sale	12	2,041
1,379	Inventories	-	1,237
46,430	Short Term Debtors	16	46,432
60,362	Cash & Cash Equivalents	17	32,135
109,659	**Current Assets**		**106,893**
(90,252)	Bank Overdraft	17	(80,006)
(23,870)	Short Term Borrowing	15	(20,920)
(81,094)	Short Term Creditors	18	(79,692)
(6,848)	Provisions	20	(5,072)
(594)	Revenue Grants Receipts in Advance	31	(240)
(6,094)	Capital Grants Receipts in Advance	31	(2,988)
(208,752)	**Current Liabilities**		**(188,918)**
(4,267)	Provisions	20	(4,526)
(492,947)	Long Term Borrowing	15	(480,556)
(782,730)	Other Long Term Liabilities	19	(745,503)
(3,589)	Capital Grants Receipts in Advance	31	(6,799)
(1,283,533)	**Long Term Liabilities**		**(1,237,384)**
273,254	**Net Assets**		**382,352**
179,298	Usable Reserves	8/21	190,027
93,956	Unusable Reserves	22	192,325
273,254	**Total Reserves**		**382,352**

2014/15 £'000		2015/16 £'000	2015/16 £'000	Note Refs
(22,247)	**Net (surplus) / deficit on the provision of services**		**(35,366)**	
(102,951)	**Adjustments to net (surplus) / deficit on the provision of services for non cash movements**		**(76,047)**	23
44,660	**Adjustments for items included in the net (surplus) / deficit on the provision of services that are investing and financing activities**		**38,973**	23
(80,538)	**Net cash flows from Operating Activities**		**(72,440)**	
	Investing Activities:			
103,892	Purchase of property, plant and equipment, investment property and intangible assets	88,398		
184,251	Purchase of short and long term investments	165,249		
(17,200)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(14,398)		
(194,254)	Proceeds from short and long term investments	(140,224)		
(30,561)	Other receipts from investing activities	(27,935)		
46,128	**Net cash flows from Investing Activities**		**71,090**	
	Financing Activities:			
(164,754)	Cash receipts of short and long term borrowing	(25,183)		
3,966	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	3,990		
179,014	Repayments of short and long term borrowing	40,524		
18,226	**Net cash flows from Financing Activities**		**19,331**	
(16,184)	**Net (increase) / decrease in cash and cash equivalents**		**17,981**	
(46,074)	Cash and cash equivalents at the beginning of the reporting period		(29,890)	17
(29,890)	**Cash and cash equivalents at the end of the reporting period**		**(47,871)**	17

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Earmarked HRA Reserves (inc MRR) £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Schools Balances £'000	Total Unusable Reserves £'000	Total Council Reserves £'000
Balance as at 31 March 2014	**62,497**	**17,198**	**1,779**	**32,966**	**1,221**	**16,192**	**25,505**	**210,477**	**367,835**
Movement in Reserves During 2014/15									
Surplus / (Deficit) on the provision of services	(21,335)	-	-	43,582	-	-	-	-	**22,247**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(116,828)	**(116,828)**
Total Comprehensive Income and Expenditure	**(21,335)**	**-**	**-**	**43,582**	**-**	**-**	**-**	**(116,828)**	**(94,581)**
Adjustments between accounting basis & funding basis under regulations	34,391	-	-	(40,744)	3,260	2,786	-	307	-
Net Increase / Decrease before Transfers to Earmarked Reserves	**13,056**	**-**	**-**	**2,838**	**3,260**	**2,786**	**-**	**(116,521)**	**(94,581)**
Transfers to / from Earmarked Reserves	(7,609)	1,370	1,127	(1,127)	-	-	6,239	-	-
Increase / Decrease in Year	**5,447**	**1,370**	**1,127**	**1,711**	**3,260**	**2,786**	**6,239**	**(116,521)**	**(94,581)**
Balance at 31 March 2015	**67,944**	**18,568**	**2,906**	**34,677**	**4,481**	**18,978**	**31,744**	**93,956**	**273,254**
Movement in Reserves During 2015/16									
Surplus / (Deficit) on the Provision of Services	279	-	-	35,087	-	-	-	-	**35,366**
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	73,732	**73,732**
Total Comprehensive Income and Expenditure	**279**	**-**	**-**	**35,087**	**-**	**-**	**-**	**73,732**	**109,098**
Adjustments between accounting basis & funding basis under regulations (Note 7)	8,303	-	-	(35,255)	988	1,327	-	24,637	-
Net Increase / Decrease before Transfers to Earmarked Reserves	**8,582**	**-**	**-**	**(168)**	**988**	**1,327**	**-**	**98,369**	**109,098**
Transfers to / from Earmarked Reserves (Note 8)	(5,528)	1,521	(212)	212	-	-	4,007	-	-
Increase / Decrease in Year	**3,054**	**1,521**	**(212)**	**44**	**988**	**1,327**	**4,007**	**98,369**	**109,098**
Balance at 31 March 2016 carried forward	**70,998**	**20,089**	**2,694**	**34,721**	**5,469**	**20,305**	**35,751**	**192,325**	**382,352**

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the council's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. The council is required to prepare an annual Statement of Accounts in line with the Accounts and Audit Regulations 2015, 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 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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.

ii. 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 the cash flows fixed or determined by the contract.

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

- The council operates a de-minimus level for the processing of accruals, £10,000 for capital and £1,000 for revenue. The de-minimus policy for revenue was implemented in 2015/16 and requires that no accruals are actioned for individual amounts below £1,000 unless for a group of similar transactions there would be a material impact upon the accounts of not recognising the income and expenditure in the relevant accounting period.

iii. 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 funds invested in call accounts and 30 day notice accounts which are readily convertible to known amounts of cash with insignificant risk of change in value.

All other investments held by the council do not represent cash equivalents as they are not readily convertible to known amounts of cash with an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

iv. **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.

v. **Prior Period Adjustments, Changes in Accounting Polices 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.

vi. **Charges to Revenue for Non Current Assets**

Services and support services are debited 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; and
- 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 and therefore, these are reversed out of General Fund balances to the Capital Adjustment Account via the Movement in Reserves Statement.

vii. **Valuation of Stocks and Work In Progress**

Stocks held in service areas are shown in the Balance Sheet valued at the lower of cost and net realisable value as required by IAS 2. Other stocks held in kitchens and restaurants are shown at historical purchase price.

Work in progress is shown at cost with the exception of long term contracts in the Internal Trading Organisations which are valued at cost, plus attributable profit, less any foreseeable losses and any income received.

viii. **Employee Benefits**

Benefits Payable During Employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave 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 (including time off in lieu, flexi leave and carers leave) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement 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. They are charged on an accruals basis to the relevant service area line in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructure.

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

Post Employment Benefits

Employees of the council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teacher's Pensions on behalf of the Department for Education (DfE),
- The Local Government Pension Scheme, administered by Wolverhampton City Council, and;
- The National Health Service (NHS) Pension Scheme

These schemes provide defined benefits to members (retirement lump sums and pensions), earned during employees' service with the council.

Teachers' and National Health Service Pension Schemes

Arrangements for both the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the council. The schemes are therefore accounted for as if they were defined contribution schemes with no liability for future payments of benefits being 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 contribution payable to teachers' pensions in the year.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

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

Liabilities are discounted to their value at current prices, using a discount rate of 3.6% 2015/16, (2014/15 3.3%) based on the indicative rate of return on high quality corporate bonds.

The assets of the West Midlands Pension Fund attributable to the council are included in the Balance Sheet at fair 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 as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years; debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

  - Net interest expense – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing Investment Income and Expenditure line in 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, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments

- Remeasurements comprising:
  - Return on plan assets – excluding amounts included in net interest on the net defined benefit liability, 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 as Other Comprehensive Income and Expenditure

- Contributions paid to the West Midlands Pension Fund – cash paid as 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 and HRA balances 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 and HRA of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any

member of staff (including teachers) are accrued in the year of the decision to make award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. **Events after the Balance Sheet Date**

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 events 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.

x. **Financial Instruments**

Financial Liabilities

These are initially measured at fair value and carried at their amortised cost with the exception of other local authority debt which is held at historic cost. Annual charges are made to the Comprehensive Income & Expenditure Statement (CI&ES) based on the carrying value of the liability multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the CI&ES as they occur. Any premium or discount arising on restructured borrowing is respectively deducted from, or added to, the amortised cost of the new or modified loan and charged to the CI&ES over the life of the loan by an adjustment to the effective interest rate.

Financial Assets

Financial assets are classified as follows:

- Loans and Receivables - assets that have fixed or determinable payments but are not quoted in an active market
- Available for Sale Assets - assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are initially measured at fair value and carried at amortised cost. Annual credits to the CI&ES for interest receivable are based on the carrying amount of the instrument, multiplied by its effective rate.

Loans made by the council at less than market rate are known as 'soft loans'. Soft loans currently held by the council relate to car loans for employees. The financial effect of this concession is charged to the CI&ES representing the interest foregone, over the life of the loan. Since statutory provisions require that the impact of soft loans on the General Fund balance is limited to the actual interest receivable for the year, a transfer to or from the Financial Instruments Adjustment Account is made to cover the difference.

Available for Sale Assets

Available for Sale assets are initially measured at fair value. Fixed or determinable payments, such as interest receivable are credited to the CI&ES annually based on the amortised cost of the asset multiplied by the effective rate of interest. Other payments, such as dividends are credited to the CI&ES when they become receivable.

Fair value is applied to Available for Sale assets on one of the following bases:
- Instruments with quoted market prices - market price
- Other instruments with fixed or determinable payments - discounted cash flow analysis
- Unquoted equity shares for which a reliable fair value cannot be determined - independent appraisal

Where it is not possible to appraise the value of an instrument with a satisfactory degree of reliability, then cost less any impairment losses is used. Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain or loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets, unless the change arises from impairment, in which case the loss is charged to the CI&ES, together with any net gain/loss for the asset accumulated in the reserve.

Further details relating to the fair value of financial assets and liabilities are provided in section xxviii of the accounting policies and note 15 (Financial Instruments).

xi. **Government Grants and Contributions**

Government grants, 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 acquired using 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 transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Receipts In Advance. 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 ringfenced 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.

Business Improvement District

The Albion Business Improvement District (BID) scheme is situated within the Greets Green and Lyng Ward of Sandwell. The scheme is funded by a BID levy paid by non domestic ratepayers. The council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant service lines in the Comprehensive Income and Expenditure Statement.

xii. **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 (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is 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. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. 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 (CI&ES).

An asset is tested for impairment whenever there is an indication that this may have occurred – any losses recognised are posted to the relevant service line(s) in the CI&ES.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CI&ES.

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 Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. **Interest in Companies and Other Entities**

The Code requires local authorities with material interests in subsidiary and associated companies and joint ventures to prepare, as supplementary information, summarised group accounts.

The council has financial relationships with Sandwell Land and Property Ltd, which is a subsidiary of the council. Further details are included within the narrative report to the accounts. The council also has an associate company, Sandwell Inspired Partnership Services, however group accounts have not been prepared as there is no material impact to the financial statements of the council

xiv. **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 its fair value measured at the inception of the lease (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.

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 and 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 (eg, if there is a rent free period at the commencement of the lease).

The Council as Lessor

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received); and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the leased asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written off value of disposals is not a charge against council tax, as the cost of non current assets 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.

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 (eg, if there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xv. **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 2015/16 (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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xvi. **Capital Accounting**
<u>Non Current Asset Valuations</u>
The freehold and leasehold properties in the categories Property, Plant & Equipment, Investment Assets and Assets Held for Sale have been valued by officers within Strategic Asset Management and by the council's external valuers Wilks Head & Eve (WH&E). The Code requires that as a minimum, non current assets are revalued every five years. However it is recommended that revaluation should take place more regularly where it is determined that a five-yearly valuation is insufficient to keep pace with material changes in fair value. The council

operates a five year rolling programme, although an annual review is also undertaken to assess if there are material changes that require specific assets to be revalued more frequently.

The beacon valuations appertaining to Council Dwellings have been carried out by the District Valuer (DV) in 2015/16 and are in accordance with the Guidance on Stock Valuation for Resource Accounting. A full valuation was completed in 2012/13; this will be repeated every fifth year with a desktop revaluation in each of the interim years. Further details on the beacon valuation methodology can be found in note 4 to the accounts.

Property Plant & 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 (PP&E). Expenditure on the acquisition, creation or enhancement of PP&E is capitalised on an accrual basis provided it affords economic benefits or service potential to the council for more than one financial year.

As a general rule, the council adopts a zero de-minimus limit in determining capital expenditure. An exception to this rule however, is that only expenditure in excess of £10,000 on vehicles is treated as capital expenditure, any expenditure below this limit is charged to revenue.

Assets are initially measured at cost and are then carried on the Balance Sheet using the following measurement bases:

Council Dwellings
Council houses are measured at fair value, determined using the basis of existing use value for social housing (EUV-SH). This takes account of a social use factor of 34% determined by the Department of Communities and Local Government (DCLG).

Community Assets
Community assets are assets that the council intends to hold in perpetuity, they have no determinable useful life and which may, in addition, have restrictions on their disposal (eg parks, historic buildings, gallery exhibits). They are valued at historic cost, but where this information is not available the asset is valued at a nominal value of £1. The value of such assets is therefore insignificant and no entry appears on the balance sheet.

Infrastructure
Infrastructure assets are inalienable assets, expenditure on which is recoverable only by continued use of the asset created (e.g. highways, footpaths). They are valued at historic cost net of depreciation.

Assets Under Construction
These assets are held at historic cost.

Surplus Assets
Surplus assets not held for sale are measured at fair value which is the price at which an orderly transaction to sell an asset would take place between market participants at the measurement date under current market conditions. Further information on the council's fair value policy is given in section xxviii.

Other Assets
All other assets that fall into the category of PP&E are measured at current value which is the amount that would be exchanged for an asset in its existing use reflecting the service or function of the asset at the valuation date. These valuations are carried out on an existing use (EUV)

basis or at depreciated replacement cost (DRC) if the specialised nature of the assets means that there is no market based evidence to derive an EUV valuation.

Where non property assets that have short useful lives and/or low value, depreciated historic cost (DHC) is used as a proxy for fair value.

All non current assets are revalued, as a minimum, every five years as at 1st April.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. However, gains may be credited to the Comprehensive Income & Expenditure Statement (CI&ES) where they arise from a reversal of a loss previously charged to a service.

Decreases in values are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the reduction is offset 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 excess is charged to the relevant service line(s) in the CI&ES.

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

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the loss is offset 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 loss is charged to the relevant service line(s) in the CI&ES.

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

<u>Depreciation</u>
Depreciation is provided for on all Property, Plant and Equipment (PP&E) assets by the systematic allocation of their depreciable amounts over their determinable finite lives. An exception is made for assets without a determinable finite useful life (ie freehold land and certain Community and Heritage Assets) and assets that are not yet available for use (ie assets under construction).

In general, depreciation is calculated on the opening balance of an asset on a straight line basis over its estimated remaining useful life (RUL). As a guide, the useful lives of assets falling under PP&E are as follows:

Infrastructure	40 years
Vehicles & Plant	7 years
Street Lighting	30 years
Street Furniture	10 years
Equipment	5 -10 years

In relation to PP&E Buildings, the council has adopted a weighted average RUL that reflects the prevailing condition of individual assets based upon condition assessments carried out by the Council's Urban Design / Building Services section.

Where an asset has major components whose cost is significant in relation to the total cost of the item and which have differing estimated useful lives, these components may be depreciated separately if deemed to be material. Further details of the council's accounting policy for components can be found in accounting policy xvii.

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.

Investment Properties

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 (see accounting policy xxviii), 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 annually according to market conditions at the year end. Investment properties receive a physical revaluation on a rolling three year cycle, properties that do not receive a physical revaluation in a given year are uplifted based upon current market indices where it is appropriate to do so. Further details can be found in note 4 to the accounts.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CI&ES. The same treatment is applied to gains and losses on disposal. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They 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, the Capital Receipts Reserve.

Non Current Assets Held For Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CI&ES. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

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

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

Asset Disposals
When an item of PP&E or an Asset Held for Sale is disposed of, the carrying amount of the asset in the Balance Sheet is written out to the Other Operating Expenditure line in the CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES, also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government.

The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or is set aside to reduce the council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund Balance in the Movement in Reserves Statement.

The write off of disposals is not a charge against council tax, as the cost of non current assets 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.

Borrowing Costs
The council does not currently capitalise any of its borrowing costs.

xvii. **Component Accounting**
A component is a part of an item of Property Plant & Equipment that has a cost that is significant in relation to the total cost of the asset. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

Significant components need only be separated out from the total asset if it depreciates at a different rate (ie it has a different useful life or is depreciated on a different basis).

The council, in conjunction with its external valuers, Wilks Head & Eve (WH&E), have identified the following significant components;

- Main Structure (remaining assets that do not fall into any of the below)
- Roof
- External
- Heating
- Electrical
- Other (any other item that is deemed significant, eg Swimming Pool, Lift)

The council is also required to consider the concept of materiality when considering the application of componentisation to its assets and has determined that componentisation will only be applied to items of PP&E where doing so has a material impact upon the amount of depreciation to be charged to the Comprehensive Income and Expenditure Statement and Balance Sheet.

In order to assess materiality, the council has instructed WH&E to provide individual PP&E valuations on a componentised basis so that the impact upon depreciation can be determined. From the results of this process the council has concluded that componentisation would not materially affect the level of depreciation charged on any of its PP&E assets valued during 2015/16 and, as a result, has not applied componentisation to its assets in this financial year. The council will however continue to review this process annually.

The council has also reviewed its capital expenditure in year and there are no items of material expenditure on the replacement of components that require the estimated value of the old component to be written out of the accounts.

It should be noted that when determining materiality the council compares the cost of the new component with the total net book value of the asset. This differs slightly from the guidance which recommends that cost of the component is compared to the overall cost of the asset when determining materiality. .

xviii. **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, however some of the measurement rules are relaxed. The council's collections of heritage assets are accounted for as follows:

<u>Historical Buildings</u>

The majority of the council's historical buildings are accounted for as operational assets as in addition to being held for their heritage characteristics, they are also used by the council to provide other services.

<u>Museum Exhibits, Fine Art Collections & Civic Regalia</u>

These collections are reported in the Balance Sheet using insurance valuations undertaken every five years by external valuers making reference to appropriate commercial markets. The assets are deemed to have indeterminable lives and a high residual value therefore the council does not consider it appropriate to charge depreciation. Acquisitions and donations are rare, where they do occur acquisitions are recognised at cost and donations at valuation.

<u>General</u>

The carrying amounts of heritage assets are reviewed where there is evidence of impairment, eg where an item has suffered physical damage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the council's general policies on impairment (see Accounting Policy xvi).

The disposal of heritage assets must receive prior approval from the relevant Cabinet Member. The proceeds of such items are accounted for in accordance with the council's general provisions relating to the disposal of Property, Plant and Equipment (see Accounting Policy xvi).

xix. **Minimum Revenue Provision**

Under the Local Government Act 2003, the council is required to set aside an amount from revenue as a provision for debt repayment. This amount is known as the Minimum Revenue Provision (MRP).

The calculation is based on 4% of the adjusted Capital Financing Requirement (outstanding debt) for General Fund supported borrowing. From 1 April 2008 the MRP on any new unsupported borrowing is calculated based on the life of the asset being funded. In addition to this the council may opt to make a voluntary MRP to further reduce the level of outstanding debt where resources are available to do so.

There is no statutory requirement to make an MRP for the Housing Revenue Account (HRA), however following the introduction of the self financing arrangements, the 30 year HRA business plan allows for HRA debt to be repaid annually. A voluntary MRP equal to the value of the HRA principal debt repayment has been set aside from revenue since the introduction of the self financing regime in 2012/13.

xx. **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 its 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 offset by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

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

- fair value of the services received during the year; debited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement (CI&ES)

- finance cost – an interest charge on the outstanding Balance Sheet liability; debited to the Financing and Investment Income and Expenditure line in the CI&ES

- 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 CI&ES

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

- lifecycle replacement costs; relevant costs capitalised via a revenue contribution to capital and applied as additions to Property, Plant and Equipment to recognise spend incurred. Should lifecycle works be carried out in advance or later than scheduled into the annual unitary charge, a lifecycle debtor/creditor will be recognised on the balance sheet accordingly.

xxi. **Provisions, Contingent Liabilities and Contingent Assets**

<u>Provisions</u>

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line(s) in the Comprehensive Income and Expenditure Statement (CI&ES) 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 (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

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

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

xxii. **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 through 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 of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these reserves are explained in the relevant policies.

xxiii. **School Balances**
In accordance with the schemes of delegation to schools set up in the Education Reform Act 1988, surplus/deficits against budgets can be carried forward into the following year. Any balances relating to schools are ringfenced and cannot be appropriated by the council.

xxiv. **Revenue Expenditure Funded from Capital under Statute (REFCUS)**
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non current asset has been charged as expenditure to the relevant service line in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, 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.

xxv. **Insurance Funding Arrangements**
The council operates an internal insurance account to provide insurance cover where either external cover is uneconomical or unavailable. The internal insurance account provides the following main areas of cover:

Asset Protection - The first £100,000 of loss on non-educational establishments and the first £500,000 in respect of educational establishments. The aggregate excess (cap) being £2,000,000 in any policy year. The council's asset protection does not cover the council's housing stock.

Liabilities - The first £250,000 of each claim in respect of public/products and employer's liability and the first £50,000 in respect of officials' indemnity, professional indemnity and land charges. The aggregate excess (cap) being £4,600,000 in any policy year across all liability sections of cover.

Motor – Damage to own vehicle costs. Third party losses limited to £410,000 in the aggregate after the application of individual claim excess / non ranking deductibles.

Fidelity Guarantee - The first £50,000 of each claim in respect of fraud committed against the council by its own employees. There is no annual aggregate excess (cap) in respect of fidelity guarantee claims.

The risks not covered by external insurance or other funding arrangements include third party fraud, the management of key partnerships and programmes and risks arising in respect of funding and resource allocation, in light of the current economic climate. Where there are uninsured risks which have been identified, these risks are assessed, especially for financial impact, and appropriate controls put in place to mitigate those risks.

xxvi. **VAT**

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.

xxvii. **Carbon Reduction Commitment Energy Efficiency Scheme**

The council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The scheme is currently in the initial years of its second phase which ends on 31 March 2019. The council is required to purchase and surrender allowances, either prospectively or retrospectively, and surrender them on the basis of emissions, ie carbon dioxide produced, as energy is used. As carbon dioxide is emitted (ie 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.

xxviii. **Fair Value Measurement**

IFRS 13 requires that local authorities measure some of their non-financial assets such as surplus and investment properties, and some of their financial instruments such as equity shareholdings at fair value.

The objective of the fair value approach is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date. The measurement assumes that the transaction takes place either:

a. In the principal market for the asset or liability, or
b. In the absence of a principal market, the most advantageous market.

The authority measures fair value using the same assumptions that market participants would use when pricing an asset or liability assuming that they will act in their own economic best interest.

For non-financial assets the authority takes into account the participants ability to generate economic benefits by using the asset in its highest and best use.

When determining fair value the authority's valuers use techniques that are appropriate in the circumstances and for which sufficient data is available maximising the use of relevant observable inputs and minimising the use of unobservable inputs. These inputs are categorised within the fair value hierarchy as follows:

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

The transfer date for any movement between these levels is the 31st March in each financial period.

2. **Accounting Standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 has introduced changes in accounting standards, which will be required to be adopted from 1 April 2016. These changes have been assessed as follows:

The council will be expected to adopt the measurement requirements of the Code of Practice for Transport Infrastructure Assets and apply Depreciated Replacement Cost (DRC), resulting in the establishment of a separate asset called The Highways Network Asset (HNA).

In accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; this represents a retrospective change in Accounting Policy. However, the 2016/17 Code will include an adaption to IAS 1, meaning there is no requirement to restate the information for the preceding year. The change in measurement basis will be accounted for as an adjustment to opening balances at 1st April 2016. It is anticipated that this change will significantly increase the value of the council's balance sheet.

The Telling the Story review of the presentation of local authority financial statements will result in changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves statement and will require the introduction of the new Expenditure and Funding Analysis.

Other amendments to standards include IAS19 Employee Benefits, IFRS11 Joint Arrangements, IAS16 Property, Plant and Equipment. These adaptations are considered to be minor and will be implemented from 1 April 2016, therefore there is no impact upon the 2015/16 accounts.

3. **Critical Judgements in Applying Accounting Policies**

<u>Funding where the council acts as the Agent</u>

The Black Country Local Enterprise Partnership (note 25) receives funding to aid regeneration and infrastructure development within the areas occupied by the four Black Country local authorities. The council has determined that it acts as the agent for these schemes and therefore any income received and expenditure incurred (excluding any costs relating to the management of the fund) will not be included within the Comprehensive Income and Expenditure Statement.

<u>Accounting for Schools</u>

The council accounts for the income, expenditure, assets, liabilities and reserves of its schools in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. Each type of school is accounted for as follows:

Community and Foundation/Trust schools are fully consolidated into the council's financial statements.

VA and VC Schools are consolidated into the council's financial statements except where the land and buildings are owned by religious bodies.

On 31 March 2011 school assets legally owned by the council were transferred to Sandwell Land and Property Company Ltd to protect the council's asset base. This is a land and property holding company to which the council is the sole shareholder and therefore the substance of the arrangement results in the assets remaining on the council's balance sheet. These assets are then leased back to schools converting post 31 March 2011.

Academy Schools are not consolidated into any of the council's financial statements as they are managed, controlled and funded independently of the council.

In applying the accounting policies, the council has had to make various other judgements about complex transactions and those involving uncertainty about future events. These judgements are disclosed in either the statement of accounting policies or within the relevant note to the accounts. These judgements have been made by professionals in each area and based solely upon known factors, trends and experience.

4. **Assumptions made about the Future and Other Major Sources of Estimation Uncertainty**

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

The items in the council's Balance Sheet at 31 March 2016 for which there may be a risk of an adjustment in the forthcoming financial year are as follows:

<u>Beacon Valuation of Council Dwellings</u>

A full valuation of council Dwellings was undertaken by the District Valuer (DV) in 2012/13 with the intention that subsequent valuations be carried out on a desktop basis for the next 4 years.

The desktop process undertaken in 2015/16 has looked at a sample of beacon properties to determine if there has been a significant change in value between the 31 March 2014 and the 1 April 2015.

The Guidance on Stock Valuation for Resource Accounting requires that desktop valuations be carried out at an asset group level. The work undertaken by the DV for 2015/16 identified various percentage increases and decreases in the value of the sample beacons which have subsequently been applied to the relevant asset groups that they represent.

When applied to the opening stock there is an increase in gross value of approximately £35m between the old beacon values and the new. This represents a movement of 1.59%. An upward movement of 1% would have given rise to an increase of approximately £22m.

It should be noted that these are for illustration purposes only to show the impact of the desktop review on beacon values before any other adjustments have been applied and does not represent the true movement in value of the housing stock as at the 31st March 2016.

<u>Equal Pay Provision/Earmarked Reserve</u>

The council has made a provision of £0.011m for the settlement of claims for back pay arising from the Equal Pay Initiative, based upon the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the council or that precedents set by other authorities in the settlement of claims will be applicable. An increase in either the number of claims or the average settlement would affect the value of the provision required.

Property Plant & Equipment (PP&E)
Prior to 2012/13 operational buildings included in the balance sheet category of PP&E, which have been revalued during the year, have been assigned a remaining useful life of 40 years by the council's external valuers, except where there has been a clear indication of a more appropriate asset life.

In order for valuations and the subsequent depreciation charge to better reflect the condition of individual assets, a weighted average remaining useful life (RUL) has been assigned to each asset revalued during the year, following condition assessments carried out by the councils internal building surveyors, from 2012/13 onwards.

As depreciation is calculated on the brought forward balances, a weighted average RUL has been used to calculate depreciation on a straight line basis since 2013/14.

Operational buildings last revalued prior to 2012/13 will continue to be depreciated based on the generic RUL of 40 years until a revaluation becomes due within the five year rolling programme.

A change in accounting estimate does not give rise to a prior period adjustment and therefore no retrospective adjustments have been made.

Investment Properties
In accordance with the Code, any assets falling under the category of Investment Properties should be revalued annually as at 31 March. Due to the large quantity of investment properties that the council holds, it is not possible to physically inspect each property annually and carry out a formal valuation in the short timescale available. Investment properties will therefore receive full formal valuations on a rolling three year cycle.

In order to bring the value of the properties not receiving a full valuation in year up to a current value, an indexation factor is applied to each property, relevant to when it was last revalued, if it is determined that market movements require this. An impairment review carried out for Investment Properties indicated that this was not required in 2015/16.

Given that a formal valuation has not been carried out for all investment properties there is a level of uncertainty over the value of these properties included within the council's balance sheet. However, any under or over estimation of values resulting from the application of indexation factors will be corrected over time as the properties are formally revalued.

Pensions 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, Barnett Waddingham, is engaged to provide the council with expert advice about the assumptions to be applied.

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 1% increase in the discount rate assumption would result in a decrease in the pension liability of £28.495m.

However, the assumptions interact in complex ways. During 2015/16, the council's actuaries advised that the net pensions liability had decreased by £85.204m as a result of assumptions being updated.

Long Term Investments – Birmingham Airport Shareholding

The council holds shares in Birmingham Airport Holdings Limited represented by 5.62% of equity shares and 11.48% of preference shares. These were re-valued in 2015/16 by Solihull MBC and reviewed by their valuers BDO LLP. The value of ordinary shares has increased by £2.32m and the value of preference shares has decreased by £0.164m. This movement in value is deemed to be immaterial and therefore no adjustment has been processed through the accounts.

Non Domestic Rates Provision

Following the introduction of the retained business rates scheme in April 2013, the Collection Fund is now liable for the settlement of any successful appeals lodged against the rateable value of business properties. A provision of £2.150m has been set aside, of which the council's share of 49% equates to £1.054m. The provision has been based upon information provided by the Valuation Office Agency and estimations of both the likelihood of the appeal being successful and the subsequent reduction in rateable value. An estimation technique such as this is susceptible to numerous variables, all of which could potentially change the end value of the provision created.

Fair Value Measurement

When the fair value of financial and non financial assets or liabilities cannot be measured based on quoted prices within active markets (ie using level 1 inputs) then other techniques are used to derive their fair value.

The authority has used earnings techniques to establish the fair value of its Birmingham Airport Shareholding and cashflow techniques to determine the fair value of its Public Works and Market Loans.

In relation to Investment and Surplus assets fair value has been derived through the market approach.

Where any of the above techniques require the valuer to apply their judgement or make assumptions there is an element of risk or uncertainty and, therefore, any changes to these assumptions could increase or decrease the fair value of the assets concerned.

It should be noted that where level 1 inputs are not available to measure fair value of financial and non financial assets and liabilities, the authority employs relevant valuation and treasury management experts to identify the most appropriate techniques to apply. These techniques are disclosed in further detail in notes 14 and 15.

5. Material Items of Income and Expense

There have been no material items of income or expense to report in either the current year accounts or prior year comparators.

6. Events after the Balance Sheet Date

The statement of accounts was authorised for issue on 18 August 2016. Events taking place after this date are not reflected in the financial statements or notes.

Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no events to report.

7. **Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure.

2014/15

	Usable Reserves							
	General Fund Balance	Earmarked General Fund Reserves	Major Repairs Reserve	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Schools Balances	Total Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	24,238			12,277				**(36,515)**
Revaluation losses on Property Plant & Equipment	32,105			(517)				**(31,588)**
Movements in the market value of Investment Properties	(762)			(1,468)				**2,230**
Movements in the market value of Available for Sale Assets	734							**(734)**
Amortisation of Intangible Assets	1,192							**(1,192)**
Capital grants and contributions applied	(26,809)			(2,523)				**29,332**
Revenue expenditure funded from capital under statute	6,405							**(6,405)**
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income & Expenditure Account	13,281			8,618				**(21,899)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	(17,450)			(11,213)				**28,663**
Capital expenditure charged against the General Fund and HRA balances	(5,907)			(24,396)				**30,303**
Adjustments primarily involving the Capital Grants Unapplied								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						12,321		**(12,321)**
Application of grants to capital financing transferred to the Capital Adjustment Account						(9,535)		**9,535**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(4,793)			(11,696)	16,489			**-**
Use of the Capital Receipts Reserve to finance new capital expenditure					(10,795)			**10,795**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	2,434				(2,434)			**-**
Adjustments primarily involving the Major Repairs Reserve:								
Reversal of the Major Repairs Allowance credited to the HRA			11,499	(11,499)				**-**
Use of the Major Repairs Reserve to finance new capital expenditure			(11,499)					**11,499**
Adjustments primarily involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(59)			(16)				**75**
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the CI&ES	40,339			9,356				**(49,695)**
Employer's pensions contributions and direct payments to pensioners payable in the year	(28,575)			(7,534)				**36,109**
Adjustment primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the CI&ES is different from council tax income calculated for the year in accordance with statutory requirements	(1,801)							**1,801**
Adjustment primarily involving the Accumulating Compensated Absences Adjustment Account:								
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(181)			(133)				**314**
Total Adjustments	**34,391**	**-**	**-**	**(40,744)**	**3,260**	**2,786**	**-**	**307**

2015/16

	Usable Reserves							
	General Fund Balance	Earmarked General Fund Reserves	Major Repairs Reserve	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Schools Balances	Total Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:								
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:								
Charges for depreciation and impairment of non current assets	24,212			12,555				**(36,767)**
Revaluation losses on Property Plant & Equipment	6,052			1,470				**(7,522)**
Movements in the market value of Investment Properties	(548)			805				**(257)**
Movements in the market value of Available for Sale Assets								**-**
Amortisation of Intangible Assets	700							**(700)**
Capital grants and contributions applied	(29,622)							**29,622**
Revenue expenditure funded from capital under statute	6,342							**(6,342)**
Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income & Expenditure Account	9,618			10,986				**(20,604)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:								
Statutory provision for the financing of capital investment	(18,357)			(11,858)				**30,215**
Capital expenditure charged against the General Fund and HRA balances	(7,101)			(26,007)				**33,108**
Adjustments primarily involving the Capital Grants Unapplied Account:								
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						11,456		**(11,456)**
Application of grants to capital financing transferred to the Capital Adjustment Account						(10,129)		**10,129**
Adjustments primarily involving the Capital Receipts Reserve:								
Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(1,438)			(11,935)	13,373			**-**
Use of the Capital Receipts Reserve to finance new capital expenditure					(9,633)			**9,633**
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	2,752				(2,752)			**-**
Adjustments primarily involving the Major Repairs Reserve:								
Reversal of the Major Repairs Allowance credited to the HRA			11,852	(11,852)				**-**
Use of the Major Repairs Reserve to finance new capital expenditure			(11,852)					**11,852**
Adjustments primarily involving the Financial Instruments Adjustment Account:								
Amount by which finance costs charged to the CI&ES are different from finance costs chargeable in the year in accordance with statutory requirements	(60)			(25)				**85**
Adjustments primarily involving the Pensions Reserve:								
Reversal of items relating to retirement benefits debited or credited to the CI&ES	48,879			5,384				**(54,263)**
Employer's pensions contributions and direct payments to pensioners payable in the year	(34,979)			(4,562)				**39,541**
Adjustment primarily involving the Collection Fund Adjustment Account:								
Amount by which council tax income credited to the CI&ES is different from council tax income calculated for the year in accordance with statutory requirements	1,929							**(1,929)**
Adjustment primarily involving the Accumulating Compensated Absences Adjustment Account:								
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(76)			(216)				**292**
Total Adjustments	**8,303**	**-**	**-**	**(35,255)**	**988**	**1,327**	**-**	**24,637**

8. **Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund and Housing Revenue Account (HRA) balances in earmarked reserves to provide financing for future expenditure and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2015/16. The balances ring fenced for schools are also included below.

	Balance as at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance as at 31 March 2016 £'000
General Fund:				
Insurance	**8,061**	-	939	**9,000**
Non Domestic Rates Reserve	**1,942**	-	683	**2,625**
Sinking Fund Reserves	**1,805**	(164)	422	**2,063**
Social Fund Reserve	**1,056**	(616)	200	**640**
Revenue Grants	**1,047**	-	-	**1,047**
Grants Irregularities	**1,006**	-	25	**1,031**
Early Help Reserve	**830**	-	500	**1,330**
West Midlands Regional Research	**659**	(75)	-	**584**
Adoption Support Reserve	**400**	-	-	**400**
Regeneration & Economy	**372**	(87)	-	**285**
Teaching for Public Health Network	**337**	(129)	-	**208**
Childrens Workforce Development	**303**	(114)	-	**189**
Welfare Reform	**200**	(200)	-	**-**
Green Deal Developments	**145**	(145)	-	**-**
Private Sector Housing Reserve	**-**	-	209	**209**
Other Earmarked Reserves	**405**	(140)	213	**478**
Total General Fund	**18,568**	**(1,670)**	**3,191**	**20,089**
Balances Held by Schools under a Scheme of Delegation	**31,744**	**-**	**4,007**	**35,751**
HRA:				
HRA Balance	**34,677**	-	44	**34,721**
HRA Welfare Reform Reserve	**2,712**	(18)	-	**2,694**
HRA Private Sector Housing Reserve	**133**	(209)	76	**-**
HRA Mortgage Rescue Scheme Reserve	**61**	(61)	-	**-**
Total HRA	**37,583**	**(288)**	**120**	**37,415**

9. Property, Plant and Equipment

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure Assets £'000	Vehicles, Plant, Furniture & Equipment £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets Not Held for Sale £'000	Total Plant, Property & Equipment £'000
Cost or Valuation								
At 1 April 2014	**765,750**	**447,970**	**288,492**	**73,885**	**14,436**	**61,871**	**29,099**	**1,681,503**
Additions	48,280	34,164	7,458	2,975	491	11,098	297	**104,763**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(176)	(963)	-	-	-	-	(2,033)	**(3,172)**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	694	(29,797)	-	-	-	-	(33)	**(29,136)**
Derecognition - Disposals	-	(11,348)	-	(1,985)	-	-	-	**(13,333)**
Assets reclassified (to) / from Held for Sale	(7,572)	-	-	-	-	-	(1,800)	**(9,372)**
Other movements in Cost or Valuation	123	51,809	1,798	-	4,925	(57,821)	(90)	**744**
At 31 March 2015	**807,099**	**491,835**	**297,748**	**74,875**	**19,852**	**15,148**	**25,440**	**1,731,997**
Accumulated Depreciation and Impairment								
At 1 April 2014	**(30,438)**	**(30,013)**	**(75,316)**	**(46,811)**	**(638)**	**(4,778)**	**(6,291)**	**(194,285)**
Depreciation Charge	(11,992)	(9,469)	(7,651)	(6,915)	-	-	(488)	**(36,515)**
Depreciation written out to the Revaluation Reserve	11,912	8,310	-	-	-	-	1,105	**21,327**
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	(109)	-	-	-	-	(956)	**(1,065)**
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	(83)	-	-	-	(17)	(1,936)	**(2,036)**
Derecognition - Disposals	-	826	-	1,952	-	-	-	**2,778**
Other movements in Depreciation and Impairment	105	(2,771)	-	-	-	2,759	30	**123**
At 31 March 2015	**(30,413)**	**(33,309)**	**(82,967)**	**(51,774)**	**(638)**	**(2,036)**	**(8,536)**	**(209,673)**
Net Book Value								
At 1 April 2014	**735,312**	**417,957**	**213,176**	**27,074**	**13,798**	**57,093**	**22,808**	**1,487,218**
At 31 March 2015	**776,686**	**458,526**	**214,781**	**23,101**	**19,214**	**13,112**	**16,904**	**1,522,324**

	Council Dwellings £'000	Other Land & Buildings £'000	Infrastructure Assets £'000	Vehicles, Plant, Furniture & Equipment £'000	Community Assets £'000	Assets Under Construction £'000	Surplus Assets Not Held for Sale £'000	Total Plant, Property & Equipment £'000
Cost or Valuation								
At 1 April 2015	**807,099**	**491,835**	**297,748**	**74,875**	**19,852**	**15,148**	**25,440**	**1,731,997**
Additions	42,680	8,080	9,782	5,869	364	17,999	-	**84,774**
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(23,124)	19,878	-	-	-	-	5,806	**2,560**
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(405)	(4,720)	-	-	-	-	1,403	**(3,722)**
Derecognition - Disposals	-	(474)	-	(2,704)	(51)	(6,156)	(770)	**(10,155)**
Assets reclassified (to) / from Held for Sale	(6,840)	-	-	-	-	-	(1,302)	**(8,142)**
Other movements in Cost or Valuation	695	14,357	-	79	254	(10,878)	(4,109)	**398**
At 31 March 2016	**820,105**	**528,956**	**307,530**	**78,119**	**20,419**	**16,113**	**26,468**	**1,797,710**
Accumulated Depreciation and Impairment								
At 1 April 2015	**(30,413)**	**(33,309)**	**(82,967)**	**(51,774)**	**(638)**	**(2,036)**	**(8,536)**	**(209,673)**
Depreciation Charge	(12,339)	(10,210)	(7,911)	(6,023)	-	-	(284)	**(36,767)**
Depreciation written out to the Revaluation Reserve	11,886	12,897	-	-	-	-	691	**25,474**
Impairment losses / (reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	(2,126)	**(2,126)**
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	-	-	-	-	-	-	(3,781)	**(3,781)**
Derecognition - Disposals	-	39	-	2,628	-	-	-	**2,667**
Other movements in Depreciation and Impairment	91	(212)	-	-	-	(13)	247	**113**
At 31 March 2016	**(30,775)**	**(30,795)**	**(90,878)**	**(55,169)**	**(638)**	**(2,049)**	**(13,789)**	**(224,093)**
Net Book Value								
At 1 April 2015	**776,686**	**458,526**	**214,781**	**23,101**	**19,214**	**13,112**	**16,904**	**1,522,324**
At 31 March 2016	**789,330**	**498,161**	**216,652**	**22,950**	**19,781**	**14,064**	**12,679**	**1,573,617**

10. **Heritage Assets**

There has been no material change to the carrying value of heritage assets in 2015/16. The carrying value as at 31 March 2016 is £3.924m.

Art Collection

An art collection displayed at Ingestre Hall Residential Arts Centre was last valued in March 2012 to be worth £1.375m. The remainder of the council's art collection was also valued in March 2012 at £0.423m by CJM Auctioneers & Valuers.

17th Century Furniture

The council's museums display some fine examples of 17th century furniture. The complete collection of furniture was valued by CJM Valuers & Auctioneers in March 2012 at £0.560m.

Civic Regalia & Presentational Silver

The majority of the civic regalia and presentational silver are assets that have been donated to the council which currently amount to over 100 items. Valuations provided by Fattorinis in November 2011 estimated the entire collection to be worth £1.232m.

Other

The council holds other heritage assets including a collection of Ruskin pottery which was last valued at £0.081m and the Helen Caddick Ethnographical Collection estimated to be worth £0.075m. Both of these were last valued in March 2012 by CJM Valuers & Auctioneers.

The council has additional heritage assets which are not disclosed in the Balance Sheet as either cost or valuation information is not available and due to the diverse nature of the assets there is a lack of comparable markets. The council considers that the benefits of obtaining the valuation for these assets would not justify the cost.

11. **Investment Properties**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

2014/15 £'000		2015/16 £'000
3,354	Rental income from investment property	3,280
(431)	Direct operating expenses arising from investment property	(348)
2,923	**Net gain / (loss)**	**2,932**

There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2014/15 £'000		2015/16 £'000
103,689	**Balance at start of the year**	**102,113**
758	Subsequent expenditure	171
(3,819)	Disposals	(5,666)
2,644	Net gains / (losses) from fair value adjustments	(257)
(1,159)	Other changes	(415)
102,113	**Balance at the end of the year**	**95,946**

12. **Assets Held for Sale**

	2014/15 £'000	2015/16 £'000
Balance outstanding at start of year	**146**	**1,465**
Assets newly classified as held for sale:		
Property Plant and Equipment	9,372	8,143
Revaluation losses	(407)	(19)
Assets Sold	(7,524)	(7,453)
Other movements	(122)	(95)
Balance outstanding at year end	**1,465**	**2,041**

13. **Intangible Assets**

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and therefore not accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include corporate software applications and licences. The council does not have any internally generated assets.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful life assigned to the major software suites used by the council is five years. The carrying value of intangible assets is amortised on a straight line basis. The movement on Intangible Asset balances during the year is as follows:

	2014/15 £'000	2015/16 £'000
Balance at start of year	**2,418**	**1,383**
Purchases	157	1,527
Amortisation for the period	(1,192)	(701)
Net carrying amount at end of year	**1,383**	**2,209**
Comprising:		
Gross carrying amount	15,135	16,662
Accumulated amortisation	(13,752)	(14,453)
	1,383	**2,209**

14. Fair Value of Non Current Assets

Movement in the Fair Value of Non Current Assets

	Valued at Historical Cost	Net Book Value at Date of last Valuation					Total
		2011/12	2012/13	2013/14	2014/15	2015/16	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property Plant & Equipment							
Council Dwellings	-	-	-	-	-	789,330	789,330
Land & Buildings	-	57,914	47,072	119,119	116,410	157,646	498,161
Infrastructure	216,652	-	-	-	-	-	216,652
Vehicles, Plant & Equipment	22,950	-	-	-	-	-	22,950
Community Assets	19,781	-	-	-	-	-	19,781
Assets Under Construction	14,064	-	-	-	-	-	14,064
Surplus Assets Not Held for Sale	-	-	538	1,629	3,003	7,509	12,679
Heritage Assets	62	3,858	-	-	3	1	3,924
Investment Properties	-	-	-	13,995	8,492	73,459	95,946
Intangible Assets	2,209	-	-	-	-	-	2,209
	275,718	**61,772**	**47,610**	**134,743**	**127,908**	**1,027,945**	**1,675,696**
Assets Held for Sale	-	-	1	1,278	-	762	2,041
Total	**275,718**	**61,772**	**47,611**	**136,021**	**127,908**	**1,028,707**	**1,677,737**

Fair Value Measurement of Investment Properties & Surplus Assets

The authority's valuer have categorised its Investment Properties and Surplus Assets into the following headings:

- Community Centres, Leased to Voluntary Bodies, Social Clubs
- Cleared site, Compound, Potential Residential Sites, Vacant Sites
- Depots, Industrial
- Land
- Planning Shops/Sites, Shops
- Farms
- Offices

When determining the fair value of these assets the valuers have used the following inputs:

- Market Rental and Sales Values
- Yields
- Void and letting periods
- Size
- Configuration, Proportions and Layout
- Location, Visibility and Access
- Condition
- Lease Covenants
- Obsolescence

When applied to the fair value hierarchy the valuers have concluded that:

Level 1 – Quoted Prices

There are no assets within the portfolio whose fair value have been derived through Level 1 inputs.

Level 2 – Significant Observable
The valuations for Land (including Farmland & Development), Office, Industrial and Retail assets have been based on the market approach using current market conditions and recent sale prices and other relevant information for similar assets. Market conditions for these asset types are such that that the level of observable inputs are significant and should be categorised at Level 2.

Level 3 – Significant Unobservable
Community Centres have been based on a comparable approach either by estimated market rental values or subsidised passing rents. The valuers have had to draw on a number of their own assumptions and utilised third party resources in order to derive a fair value for these assets. These assets are, therefore, categorised at Level 3 as the measurement technique uses significant unobservable inputs.

Fair Value Hierarchy
Details of the authority's investment and surplus assets and where they sit within the fair value hierarchy are shown in the following table:

Fair Value Hierarchy 2014/15

	(Quoted Prices) Input Level 1 £000's	Observable Input Level 2 £000's	Unobservable Input Level 3 £000's	Fair Value 31st March 2015 £000's
Fair Value Category				
Investment Properties				
Cleared Sites	-	11,400	-	11,400
Community Centres	-	-	319	319
Compounds	-	1,309	-	1,309
Depots	-	520	-	520
Farms	-	237	-	237
Industrial Sites	-	5,078	-	5,078
Land	-	38,943	-	38,943
Retail Sites	-	35,185	-	35,185
Shops	-	7,759	-	7,759
Vacant Sites	-	1,363	-	1,363
Total	-	**101,794**	**319**	**102,113**
Surplus Assets				
Car Parks	-	2,933	-	2,933
Cleared Sites	-	869	-	869
Depots	-	206	-	206
Land	-	9,838	-	9,838
Vacant Sites	-	3,058	-	3,058
Total Surplus	-	**16,904**	-	**16,904**
Total	-	**118,698**	**319**	**119,017**

Fair Value Hierarchy 2015/16

	(Quoted Prices) Input Level 1 £000's	Observable Input Level 2 £000's	Unobservable Input Level 3 £000's	Fair Value 31st March 2016 £000's
Fair Value Category				
Investment Properties				
Cleared Sites	-	8,577	-	8,577
Community Centres	-	-	397	397
Compounds	-	1,323	-	1,323
Depots	-	2	-	2
Farms	-	470	-	470
Industrial Sites	-	5,756	-	5,756
Land	-	33,712	-	33,712
Retail Sites	-	37,016	-	37,016
Shops	-	7,807	-	7,807
Vacant Sites	-	886	-	886
Total Investment	**-**	**95,549**	**397**	**95,946**
Surplus Assets:				
Car Parks	-	2,817	-	2,817
Cleared Sites	-	2	-	2
Depots	-	204	-	204
Land	-	6,838	-	6,838
Vacant Sites	-	2,818	-	2,818
Total Surplus	**-**	**12,679**	**-**	**12,679**
Total	**-**	**108,228**	**397**	**108,625**

There have been no transfers between input levels during 2015/16 and there has been no change in the valuation techniques used to determine fair value.

Reconciliation of Fair Value Measurements – Level 3
As required by the Code, the movement in Level 3 inputs within the fair value hierarchy are detailed in the following table:

Investment: Community Centres Categorised Within Level 3

	31st March 2015 £000's	31st March 2016 £000's
Opening Balance	**441**	**319**
Transfers to Level 3	-	-
Transfers from Level 3	-	-
Gains/ Losses included resulting from a change in Fair Value	(122)	78
Additions	-	-
Disposals	-	-
Closing Balance	**319**	**397**

It should be noted that the gains and losses arising from changes in fair value of investment properties are recognised within the Financing and Investment Income and Expenditure line of the CI&E.

Quantative Information about Fair Value Measurements – Level 3

As required by the Code the quantative information relating to the fair value of Level 3 inputs is detailed in the following table:

Asset Category	Valuation Technique used to measure Fair Value	Unobservable Inputs	Range	Sensitivity
Community Centres	Comparative based on limited rental evidence	Rental Value Yields	£10 - £50 psm 10% -14%	Changes in rental growth, yields and occupancy will result in a lower or higher fair value

The fair value of the authorities Investment and surplus assets are measured and reviewed annually. The council's valuations are undertaken by external valuers in accordance with the following guidance relating to asset valuations for accounting purposes:

- Royal Institution of Chartered Surveyors (RICS) – Professional Standards (The Red Book)
- International Financial Reporting Standards (IFRS)
- Chartered Institute of Public Finance and Accounting Code (CIPFA) of Practice on Local Authority Accounting

The authority's valuation experts work closely with finance officers who report directly to the Chief Financial Officer on a regular basis regarding valuation matters.

15. **Financial Instruments**

The borrowings and investments disclosed in the Balance Sheet (carrying value) are made up of the following categories of financial instruments:

	Current 31 March 2015	Long Term 31 March 2015	Total	Current 31 March 2016	Long Term 31 March 2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000
LIABILITIES						
Borrowings:						
Financial Liabilities (principal)	15,674	491,802	**507,476**	15,283	479,331	**494,614**
Plus accrued interest	7,536	-	**7,536**	4,944	-	**4,944**
Soft Loans	-	-	-	30	112	**142**
Other Accounting Adjustments	660	1,145	**1,805**	663	1,113	**1,776**
Total Borrowings at amortised cost	**23,870**	**492,947**	**516,817**	**20,920**	**480,556**	**501,476**
PFI & Finance Lease Liabilities	4,672	92,370	**97,042**	4,714	88,338	**93,052**
Creditors	76,422	-	**76,422**	74,978	-	**74,978**
TOTAL LIABILITIES	**104,964**	**585,317**	**690,281**	**100,612**	**568,894**	**669,506**
ASSETS						
Loans & Receivables:						
Principal	40,599	-	**40,599**	12,011	-	**12,011**
Plus accrued interest	23	-	**23**	48	-	**48**
Total Loans & Receivables at amortised cost	**40,622**	-	**40,622**	**12,059**	-	**12,059**
Available for Sale Financial assets	-	21,509	**21,509**	-	21,509	**21,509**
Unquoted Equity Investment at cost	-	655	**655**	-	655	**655**
Investments	-	-	-	25,000	-	**25,000**
Total Investments	-	**22,164**	**22,164**	**25,000**	**22,164**	**47,164**
Debtors	46,420	-	**46,420**	46,432	-	**46,432**
Soft Loans	10	-	**10**	-	-	-
TOTAL ASSETS	**87,052**	**22,164**	**109,216**	**83,491**	**22,164**	**105,655**

Gains/Losses of Financial Instruments

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2014/15			
	Financial Liabilities	Financial Assets		Total
	Measured at Amortised Cost	Loans & Receivables	Available for Sale Assets	
	£'000	£'000	£'000	£'000
Total expenses in Surplus or Deficit on the Provision of Services:				
Interest Expense	(36,646)	-	-	**(36,646)**
Total income in Surplus or Deficit on the Provision of Services:				
Interest Income	-	1,106	-	**1,106**
Net Gain / (Loss) for the Year	**(36,646)**	**1,106**	-	**(35,540)**

	2015/16			
	Financial Liabilities	Financial Assets		Total
	Measured at Amortised Cost	Loans & Receivables	Available for Sale Assets	
	£'000	£'000	£'000	£'000
Total expenses in Surplus or Deficit on the Provision of Services:				
Interest Expense	(35,243)	-	-	**(35,243)**
Total income in Surplus or Deficit on the Provision of Services:				
Interest Income	-	5,630	-	**5,630**
Net Gain / (Loss) for the Year	**(35,243)**	**5,630**	-	**(29,613)**

Amortised cost
Under accounting requirements, the financial instruments shown in the Balance Sheet should be shown at amortised cost. This is the carrying amount and comprises the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

The only items that the council holds that are required to be held at fair value on the balance sheet are the available for sale assets relating to equity shares held in Birmingham airport.

Fair Value Measurement
IFRS 13 requires that local authorities measure some of their financial instruments at fair value and to apply the relevant input levels of the fair value hierarchy that are detailed in the section xxviii of the councils accounting policies.

Fair Values of Financial Assets
Some of the authority’s financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial Assets Measured at Fair Value				
Recurring fair value measurements	**Input level in fair value hierachy**	**Valuation technique used to measure fair value**	**As at 31/03/2015 £'000**	**As at 31/03/2016 £'000**
Available for Sale:				
Equity shareholding in Birmingham Airport	Level 2	Fair value derived on an earnings approach.	21,509	21,509

In relation to the councils shareholding in Birmingham Airport. There is no quoted market price in an active market for these shares and, therefore, the fair value has been based on an earnings approach. This valuation technique has involved the calculation of maintainable Earnings Before Interest, Taxation and Amortisation (EBITDA) based on the relevant business plan and applying multiples derived from similar listed companies.

There were no transfers between input levels during the financial year 2015/16 and there has been no change in the valuation techniques used to measure them.

The council does not hold any financial assets carried at fair value categorised within Level 3.

Fair value of Assets and Liabilities carried at Amortised Cost

Some financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost, (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Total Debt	**516,817**	**764,416**	**501,476**	**755,680**
PFI & Finance Lease Creditors	97,042	97,042	93,052	93,052
Trade Creditors	76,422	76,422	74,978	74,978
Total Financial Liabilities	**690,281**	**937,880**	**669,506**	**923,710**

Overall, the fair value is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

In 2015/16 the fair value of the PWLB and non PWLB debt decreased due to an increase in the discount rate applied to calculate the fair value between 2014/15 and 2015/16.

The fair value of Public Works Loan Board (PWLB) loans of £592.2m and the various banks market loans (ML) of £144.1m measures the economic effect of the terms agreed with the PWLB and the various banks with regards to the ML compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount (PWLB £387.7m/ML £94.4m) and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB and the various banks with regards to the ML, against what would be paid if the loans were at prevailing market rates, which are those equivalent to the PWLB redemption interest rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB and ML commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of PWLB at £387.7m would be valued at £516.0m and ML at £94.4m would be valued at £114.5m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB and the various banks with regards to the ML, the PWLB and the various banks would raise a penalty charge for early redemption. The exit price for the PWLB loans including the penalty charge would be £592.2m, being the principal of £383.4m, accrued interest of £4.3m and a penalty charge/premium of £204.5m. The exit price for the various banks ML including the penalty charge would be £144.1m, being the principal £92.0m, accrued interest of £1.3m and a penalty charge/premium of £50.8m.

Financial Assets

The carrying amount and the fair value of the council's financial assets are the same due to the short term nature of the transactions.

The councils long term investment in Birmingham Airport was revalued as at the 31 March 2016. It has been concluded that the movement in fair value is immaterial and therefore no adjustment has been made within the accounts, the carrying value of the investment currently remains at £21.509m.

The investment in the Local Education Partnership of £0.655m is shown at cost. As there is no reliable market value, the fair value cannot be measured reliably.

Fair Value Hierarchy for Financial Assets and Financial Liabilities

The fair value for financial liabilities and financial assets that are not measured at fair value included in Levels 2 in the table below have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

	31 March 2015			
	Quoted prices in active markets for identicle assets (Level 1)	**Other significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total £'000**
LIABILITIES				
Borrowings:				
Financial Liabilities (principal)	-	507,476	-	**507,476**
Plus accrued interest	-	7,536	-	**7,536**
Soft Loans	-	-	-	**-**
Other Accounting Adjustments	-	1,805	-	**1,805**
Total Borrowings at amortised cost	**-**	**516,817**	**-**	**516,817**
PFI & Finance Lease Liabilities	-	97,042	-	**97,042**
Creditors	-	76,422	-	**76,422**
TOTAL LIABILITIES	**-**	**690,281**	**-**	**690,281**
ASSETS				
Loans & Receivables:				
Principal	-	40,599	-	**40,599**
Plus accrued interest	-	23	-	**23**
Total Loans & Receivables at amortised cost	**-**	**40,622**	**-**	**40,622**
Unquoted Equity Investment at cost	-	655	-	**655**
Investments	-	-	-	**-**
Total Investments	**-**	**655**	**-**	**655**
Debtors	-	46,420		**46,420**
Soft Loans	-	10	-	**10**
TOTAL ASSETS	**-**	**87,707**	**-**	**87,707**

	31 March 2016			
	Quoted prices in active markets for identicle assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total £'000
LIABILITIES				
Borrowings:				
Financial Liabilities (principal)	-	494,614	-	**494,614**
Plus accrued interest	-	4,944	-	**4,944**
Soft Loans	-	142	-	**142**
Other Accounting Adjustments	-	1,776	-	**1,776**
Total Borrowings at amortised cost	**-**	**501,476**	**-**	**501,476**
PFI & Finance Lease Liabilities	-	93,052	-	**93,052**
Creditors	-	74,978	-	**74,978**
TOTAL LIABILITIES	**-**	**669,506**	**-**	**669,506**
ASSETS				
Loans & Receivables:				
Principal	-	12,011	-	**12,011**
Plus accrued interest	-	48	-	**48**
Other Accounting Adjustments	-	-	-	**-**
Total Loans & Receivables at amortised cost	**-**	**12,059**	**-**	**12,059**
Unquoted Equity Investment at cost	-	655	-	**655**
Investments	-	25,000	-	**25,000**
Total Investments	**-**	**25,655**	**-**	**25,655**
Debtors	-	46,432		**46,432**
Soft Loans	-	-	-	**-**
TOTAL ASSETS	**-**	**84,146**	**-**	**84,146**

Nature and Extent of Risk arising from Financial Instruments

Key Risks

The council's activities expose it to a variety of financial risks. The key risks are:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the council;
- Liquidity Risk – the possibility that the council might not have funds available to meet its commitments to make payments;
- Re-financing Risk – the possibility that the council might be requiring to renew a financial instrument on maturity at disadvantageous interest rate or terms;
- Market Risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rate movements.

Overall Procedures for Managing Risk

The council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and the associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public

Services and investment guidance issued through the Act (further information on the council's Treasury Management & Investment Strategy can be found on the council's website).

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody and Standard & Poors ratings services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criterion is applied. Details of the investment strategy can be found on the council's website; the key areas of the investment strategy are that the minimum criteria for investment counterparties include:

- Short Term of Short Term of F1, Long Term A, Support 3 and Individual C (Fitch or equivalent rating), with the lowest available rating being applied to the criteria
- Building Societies that meet the same credit ratings as banks (above)
- UK Institutions provided with support from the UK government

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the council.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but no breaches of the council's counterparty criteria occurred during the reporting period and the council does not expect any losses from non-performance by any of its counterparties in relation to deposits. Of the £37.011m total deposits, £25.000m were held with overseas banks and £12.011m were held with British banks; all on a temporary basis at 31 March 2016. During 2015/16 the council did not hold any collateral as security.

The following analysis summarises the council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions:

Principal Amount	Historical experience of default	Adjustment for market conditions	Estimated maximum exposure to default as at 31 March	
	31 March 2016		2016	2015
£'000	%	%	£'000	£'000
19,527	8.97	8.97	1,752	1,335

The council does not allow credit for its customers. The past due amount in relation to its trade debtors can be analysed by age as follows;

	2014/15 £'000	2015/16 £'000
Less than three months	18,485	13,210
Three to six months	1,689	1,772
Six months to one year	827	1,042
More than one year	2,620	3,503
Total	**23,621**	**19,527**

Liquidity Risk
The council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The council has ready access to borrowings from the money markets to cover any day to day cash flow need and the PWLB and money markets provide access to longer term funds.

The council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk
The council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and

- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities (borrowings) is shown overleaf, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by council in the Treasury Management Strategy).

	Approved Minimum Limits	Approved Maximum Limit (of total debt)	Principal 31 March 2015 £'000	Principal 31 March 2016 £'000
Less than one year	0%	20% (£125m)	15,674	15,313
Between one and two years	0%	20% (£125m)	12,431	14,384
Between two and five years	0%	25% (£157m)	33,210	38,716
Between five and ten years	0%	50% (£314m)	76,090	72,132
More than ten years	10%	90% (£565m)	370,071	354,211
			507,476	**494,756**

All trade and other payables are due to be paid in less than one year and trade creditors of £4.689m are not shown in the table above.

Market Risk

Interest Rate Risk – The council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council, depending on how variable and fixed rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing liability will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise;
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and effect the General Fund Balance, subject to influences from government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns; similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by government grant payable on financing costs.

The council's debt and investments are currently all held at fixed rates of interest. Therefore, there would be no impact from an increase in interest rates, so there is no need for a sensitivity analysis. However, if interest rates had been 1% higher with all other variables held constant the fair value of the council's debt would result in a decrease of £110.092m but this would not have any impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

Price Risk – The council does not generally invest in equity shares but does have shareholdings to the value of £21.509m in Birmingham Airport and £0.655m in the Local Education Partnership. Whilst these holdings are generally illiquid, the council is exposed to losses arising in 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. Instead, it only acquires shareholdings in return for open book arrangements with the companies concerned so that the council can monitor factors that might cause a fall in the value of the specific shareholdings.

Foreign Exchange Risk – The council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

16. **Short Term Debtors**

	2014/15 £'000	2015/16 £'000
Central Government Bodies	9,510	11,607
Other Local Authorities	1,490	5,241
NHS Bodies	14,990	5,048
Public Corporations and Trading Funds	217	336
Other Entities and Individuals	20,223	24,200
Total	**46,430**	**46,432**

The debtor figures above are net of provisions for bad and doubtful debts of £30.550m in 2015/16 (£24.447m in 2014/15). These provisions enable the write off of arrears on housing rents, rates, community charges, council tax and other sundry debtors.

17. **Cash and Cash Equivalents**

The balance of Cash and Cash Equivalents is made up of the following elements:

	2014/15 £'000	2015/16 £'000
Bank current accounts	19,763	20,124
Short term deposits	40,599	12,011
	60,362	**32,135**
Bank Overdraft	(90,252)	(80,006)
Total Cash and Cash Equivalents	**(29,890)**	**(47,871)**

18. Short Term Creditors

	2014/15 £'000	2015/16 £'000
Central Government Bodies	12,376	16,092
Other Local Authorities	3,583	3,814
NHS Bodies	2,906	3,778
Public Corporations and Trading Funds	46	64
Other Entities and Individuals	57,511	51,230
Finance Lease Creditors (Note 36)	4,672	4,714
Total	**81,094**	**79,692**

19. Other Long Term Liabilities

	2014/15 £'000	2015/16 £'000
Finance Lease Creditors (Note 36)	92,370	88,338
Deferred Liabilities	192	162
Deferred Creditors	3,781	3,717
Pensions Liability (Note 39)	686,387	653,286
Other Long Term Liabilities	**782,730**	**745,503**

20. Provisions

The table below shows the movements during the year in the provisions maintained by the council. These movements have been charged or generated under the appropriate headings in the service revenue accounts. These monies represent provisions for future expenses in respect of liabilities incurred in relation to the year under review and have been split between those liabilities expected to be incurred in the next 12 months (current provisions) and those expected to occur at a later date (long term provisions).

	Opening Balance at 1 April 2015 £'000	Additional Provisions in Year £'000	Amounts Used in Year £'000	Unused Amounts Reversed in Year £'000	Closing Balance at 31 March 2016 £'000
Current Provisions					
Termination Benefits	**2,791**	1,175	(2,565)	(226)	**1,175**
Insurance	**2,626**	160	-	-	**2,786**
Collection Fund Provisions	**844**	1,306	(1,096)	-	**1,054**
Carbon Reduction Scheme	**298**	1	(253)	-	**46**
Single Status - Equal Pay Settlement	**289**	-	(112)	(166)	**11**
Total Current Provisions	**6,848**	**2,642**	**(4,026)**	**(392)**	**5,072**
Long Term Provisions					
Insurance	**4,267**	259	-	-	**4,526**
Total Long Term Provisions	**4,267**	**259**	**-**	**-**	**4,526**
Total Provisions	**11,115**	**2,901**	**(4,026)**	**(392)**	**9,598**

The main provisions held are:

- Since the changes to the retained business rates scheme came into effect from 1 April 2013, the council became liable for any successful rating valuation appeals. It therefore has Collection Fund provisions of £1.054m set aside to mitigate this liability as well as to cover any potential liabilities arising for the local council tax reduction scheme.
- In light of council wide restructuring required to address efficiency savings as a result of central government cuts, the accounts include redundancy provisions totalling £1.175m. These provisions reflect the known costs of all termination benefits approved as at 31 March 2016.
- An insurance provision of £7.313m for previous years' employee and public liability claims is held in line with recommendations made within the actuarial valuation. Further details on the council's insurance fund can be found within accounting policy (xxv) on page 32.

21. **Usable Reserves**

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement and note 7 to the accounts.

General Fund Balance

The council held total revenue balances of £70.998m as at 31 March 2016, however, included within this figure are approved committed items relating to directorate surpluses carried forward into 2016/17 and additional approved revenue expenditure on specific items in future years. Free balances available to the council at 31 March 2016 are £12.141m.

	2014/15 £'000	**2015/16 £'000**
Revenue Balance	**67,944**	**70,998**
less Committed Items:		
Revenue contribution to capital expenditure	20,050	12,800
Earmarked central items	35,581	46,057
Total Available Resources	**12,313**	**12,141**

Schools Balances

Any balances relating to schools are ring fenced and cannot be appropriated by the council. In 2015/16 the Individual School Budgets (ISB) generated a surplus of £4.007m, increasing school balances to £35.751m.

Schools are directly funded from a Dedicated Schools Grant. In 2015/16, 29 schools overspent their DSG budget totalling £2.676m and 60 under spent totalling £3.847m. Other non schools' budgets, which are part of the overall ISB under spent by £2.836m resulting in a total surplus of £4.007m.

Usable Capital Receipts

The usable capital receipts reserve can be used to meet expenditure designated for capital purposes. The table below shows the in year movements:

	2014/15 £'000	2015/16 £'000
Amounts receivable in year	16,489	13,373
Amounts applied to finance new capital investment in year	(10,795)	(9,633)
Pooled capital receipts paid to DCLG	(2,434)	(2,752)
Total increase / (decrease) in realised capital resources	**3,260**	**988**
Balance brought forward 1 April	**1,221**	**4,481**
Balance carried forward 31 March	**4,481**	**5,469**

22. **Unusable Reserves**

The table below summarises the balances on the council's Unusable Reserves:

	2014/15 £'000	2015/16 £'000
Revaluation Reserve	(122,821)	(144,994)
Available for Sale Financial Instruments Reserve	(13,779)	(13,779)
Capital Adjustment Account	(651,771)	(696,419)
Financial Instruments Adjustment Account	2,339	2,254
Pensions Reserve	686,387	653,286
Collection Fund Adjustment Account	660	2,590
Accumulating Compensated Absences Adjustment Account	5,029	4,737
Total Unusable Reserves	**(93,956)**	**(192,325)**

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 are either 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.

	2014/15	2015/16	
	£'000	£'000	£'000
Balance at 1 April	**(110,770)**		**(122,821)**
Upward revaluation of assets	(35,118)	(57,304)	
Downward revaluation of assets and impairment losses not charged to the Surplus / Deficit on the Provision of Services	18,020	31,395	
Surplus or deficit on revaluation of non current assets not posted to the Surplus or Deficit on the Provision of Services	**(17,098)**		**(25,909)**
Difference between fair value depreciation and historical cost depreciation	2,171		2,160
Accumulated gains on assets sold or scrapped	2,876		1,530
Amounts written off to the Capital Adjustment Account	-		46
Balance at 31 March	**(122,821)**		**(144,994)**

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 either revalued downwards or impaired and the gains are lost, or disposed of, and the gains are realised. The opening balance on this reserve was £13.779m and has not moved during the year.

Capital Adjustment Account

This 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 contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the council. The account 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. Note 7 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2014/15	2015/16	
	£'000	£'000	£'000
Balance at 1 April	**(634,287)**		**(651,771)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Depreciation of non current assets	37,707	37,467	
Revaluation and impairment losses on property, plant and equipment	31,588	7,522	
Revenue expenditure funded from capital under statute	6,405	6,342	
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the CI&ES	21,899	20,604	
	97,599		**71,935**
Adjusting amounts written out of the Revaluation Reserve	(5,047)		(3,736)
Net written out amount of the cost of non current assets consumed in the year	**92,552**		**68,199**
Capital financing applied in the year:			
Use of the Capital Receipts Reserve	(10,795)	(9,634)	
Use of the Major Repairs Reserve	(11,499)	(11,852)	
Capital grants and contributions credited to the CI&ES that have been applied to capital financing	(17,011)	(18,166)	
Applications of grants to capital financing from the Capital Grants Unapplied Account	(9,535)	(10,129)	
Statutory provision for the financing of capital investment	(28,663)	(30,215)	
Revenue Contributions to Capital	(30,303)	(33,108)	
	(107,806)		**(113,104)**
Movements in the market value of Investment Properties debited or credited to the CI&ES	(2,230)		257
Balance at 31 March	**(651,771)**		**(696,419)**

Financial Instruments Adjustment Account

The Financial Instrument 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. The council uses the account to manage premiums/discounts paid/received on the early redemption of loans, and differences in interest relating to soft loans and variable rate loans (LOBOs).

	2014/15 £'000	2015/16 £'000
Balance at 1 April	**2,414**	**2,339**
Proportion of premiums/discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements:		
Discounts & Premiums	(52)	(57)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements:		
Market Loans (LOBOs)	(23)	(28)
Balance at 31 March	**2,339**	**2,254**

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 pay any pensions for which it is directly responsible.

	2014/15 £'000	2015/16 £'000
Balance at 1 April	**538,875**	**686,387**
Remeasurements of the net defined benefit liability / (asset)	133,926	(47,823)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	49,695	54,263
Employer's pensions contributions and direct payments to pensioners payable in the year	(36,109)	(39,541)
Balance at 31 March	**686,387**	**653,286**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non Domestic Rates income in the Comprehensive Income and Expenditure Statement (CI&ES) as it falls due from payers, compared with the statutory arrangements for paying amounts across to the General Fund from the Collection Fund. The amount by which income credited to the CI&ES is different from income calculated for the year in accordance with statutory requirements is £1.929m (£1.801m in 2014/15).

Accumulating Compensated Absences Adjustment Account

This account absorbs the differences that would arise on the General Fund and Housing Revenue Account Balance by accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. The amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements is £0.292m (£0.314m in 2014/15).

23. Cash Flow Statement

Net cash flows from operating activities include the following items:

	2014/15 £'000	2015/16 £'000
Interest Paid	(37,019)	(39,003)
Interest Received	185	118
Dividends Received	941	1,250

	2014/15 £'000	2015/16 £'000
Adjustments to net surplus / deficit on the provision of services for non cash movements		
Non Cash Transactions:		
Depreciation, impairment and amortisation of non current assets	(69,295)	(44,989)
Sale of non current assets - disposals (carrying value)	(21,899)	(20,604)
Net charges made for retirement benefits in accordance with IAS19	(13,586)	(14,722)
Appropriations to / from Collection Fund Adjustment Account	1,800	(1,929)
Appropriations to / from Accumulated Absences Account	312	292
Gains / Losses on Revaluation	2,230	(257)
Gains / Losses on Revaluation on Available for Sale Assets	(734)	-
Other non cash transactions	193	(6)
	(100,979)	**(82,215)**
Items on an Accruals Basis:		
Increase / (decrease) in Inventories	(1,090)	(142)
Increase / (decrease) in Debtors	1,765	112
(Increase) / decrease in Creditors	(1,950)	3,803
(Increase) / decrease in Provisions	(697)	2,395
	(1,972)	**6,168**
Total adjustments to net surplus/deficit on the provision of services for non cash movements	**(102,951)**	**(76,047)**
Adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities		
Sale of non current assets - proceeds	16,489	13,373
Taxation & Specific Grants	28,171	25,600
Total adjustments for items included in the net surplus/deficit on the provision of services that are investing and financing activities	**44,660**	**38,973**

24. **Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice, however decisions about resource allocation are taken by the council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.
- Expenditure on some support services is budgeted for centrally and not charged to the directorates.

The income and expenditure of the council's directorates recorded in the outturn reports for the year is as follows:

2014/15	People			Performance		Place (Neighbourhoods & Regeneration & Economy)	HRA	Total Reported to Management
	Adults	Schools	People (Children & Families and Public Health)	Assistant Chief Executive	Performance Other			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	21,688	158,006	37,079	59,863	537	25,254	32,251	**334,678**
Premises	670	17,429	2,833	13,437	-	4,779	4,744	**43,892**
Transport	505	564	3,938	569	3	3,852	1,979	**11,410**
Supplies & Services	15,942	263,733	34,985	23,437	448	49,550	31,763	**419,858**
Third Party Payments	79,275	11,336	21,073	1,747	-	3,439	459	**117,329**
Transfer Payments	9,132	-	975	137,392	-	8	-	**147,507**
Capital Charges	384	-	13,549	2,292	577	13,420	11,499	**41,721**
Total Expenditure	**127,595**	**451,068**	**114,432**	**238,737**	**1,565**	**100,302**	**82,695**	**1,116,395**
Specific Grants	(667)	(227,067)	(33,320)	(153,036)	(103)	(4,148)	(5,748)	**(424,089)**
Other Grants & Contributions	(16,907)	(4,317)	(2,129)	(7,777)	-	(2,083)	(1,037)	**(34,250)**
Fees & Charges	(13,586)	(18,963)	(2,520)	(14,946)	(972)	(12,750)	(129,989)	**(193,726)**
Recharges in Target	(8,769)	(206,851)	(5,708)	(21,894)	(660)	(14,557)	(6,031)	**(264,470)**
Other Income	(113)	(93)	(1,520)	(54)	-	(362)	-	**(2,142)**
Total Income	**(40,042)**	**(457,291)**	**(45,197)**	**(197,707)**	**(1,735)**	**(33,900)**	**(142,805)**	**(918,677)**
Net Expenditure	**87,553**	**(6,223)**	**69,235**	**41,030**	**(170)**	**66,402**	**(60,110)**	**197,718**

2015/16	People			Performance		Place (Neighbourhoods & Regeneration & Economy)	HRA	Total Reported to Management
	Adults	Schools	People (Children & Families and Public Health)	Assistant Chief Executive	Performance Other			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	23,213	156,830	35,957	56,111	791	22,563	30,511	325,976
Premises	682	17,667	3,169	10,809	-	5,075	2,441	39,843
Transport	515	514	4,054	459	5	3,255	1,829	10,631
Supplies & Services	21,311	269,505	34,820	19,992	332	47,929	35,495	429,384
Third Party Payments	88,665	9,400	21,563	1,358	-	3,199	545	124,730
Transfer Payments	10,792	-	1,033	135,943	-	6	110	147,884
Capital Charges	343	-	14,414	2,840	368	13,457	11,852	43,274
Total Expenditure	**145,521**	**453,916**	**115,010**	**227,512**	**1,496**	**95,484**	**82,783**	**1,121,722**
Specific Grants	(3,152)	(223,881)	(33,016)	(149,266)	(96)	(2,196)	(5,777)	**(417,384)**
Other Grants & Contributions	(31,426)	(4,805)	(1,653)	(6,647)	(1)	(2,838)	(16)	**(47,386)**
Fees & Charges	(14,126)	(15,494)	(2,406)	(13,873)	(126)	(13,551)	(130,345)	**(189,921)**
Recharges in Target	(14,952)	(213,495)	(7,433)	(24,976)	(684)	(14,661)	(5,188)	**(281,389)**
Other Income	-	(103)	(3,981)	(53)	-	(113)	(125)	**(4,375)**
Total Income	**(63,656)**	**(457,778)**	**(48,489)**	**(194,815)**	**(907)**	**(33,359)**	**(141,451)**	**(940,455)**
Net Expenditure	**81,865**	**(3,862)**	**66,521**	**32,697**	**589**	**62,125**	**(58,668)**	**181,267**

Reconciliation of Income and Expenditure based on a Directorate basis to the Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures included in the analysis of the single entity directorate income and expenditure relates to the amounts included in the Comprehensive Income and Expenditure Statement.

	2014/15 £'000	2015/16 £'000
Net expenditure in the Single Entity Directorate Analysis	**197,718**	**181,267**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	13,719	(9,218)
Net Cost of Services in the Comprehensive Income and Expenditure Statement	**211,437**	**172,049**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures included in the analysis of the single entity directorate income and expenditure relates to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Theme Analysis £'000	Amounts not reported to management £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Employees	334,678	(16,356)	**318,322**	-	**318,322**
Premises	43,892	(11,706)	**32,186**	-	**32,186**
Transport	11,410	(6,334)	**5,076**	-	**5,076**
Supplies & Services	419,858	(251,812)	**168,046**	-	**168,046**
Third Party Payments	117,329	(784)	**116,545**	-	**116,545**
Transfer Payments	147,507	-	**147,507**	-	**147,507**
Capital Charges	41,721	33,639	**75,360**	-	**75,360**
Non Target Recharges	-	37	**37**	-	**37**
Levies	-	-	-	15,743	**15,743**
Interest Payments	-	-	-	36,646	**36,646**
Payments to Housing Capital Receipts Pool	-	-	-	2,434	**2,434**
(Gains)/Losses on Disposal of Non Current Assets	-	-	-	5,173	**5,173**
Losses on revaluation of Assets Held for Sale	-	-	-	415	**415**
Losses on revaluation of Available for Sale Assets	-	-	-	734	**734**
Pensions interest cost & expected return on assets	-	-	-	22,981	**22,981**
Gross Expenditure	**1,116,395**	**(253,316)**	**863,079**	**84,126**	**947,205**
Specific Grants	(424,089)	2,592	**(421,497)**	-	**(421,497)**
Other Grants & Contributions	(34,250)	782	**(33,468)**	-	**(33,468)**
Fees & Charges	(193,726)	(1,802)	**(195,528)**	-	**(195,528)**
Recharges in Target	(264,470)	264,632	**162**	-	**162**
Other Income	(2,142)	831	**(1,311)**	-	**(1,311)**
Interest & Investment Income	-	-	-	(1,106)	**(1,106)**
Income & expenditure re Investment Properties	-	-	-	(2,923)	**(2,923)**
Changes in Fair Value of Investment Properties	-	-	-	(1,992)	**(1,992)**
Income from Council Tax	-	-	-	(81,281)	**(81,281)**
Retained Business Rates	-	-	-	(49,145)	**(49,145)**
Business Rates Top Up	-	-	-	(43,793)	**(43,793)**
Collection Fund Deficit	-	-	-	1,432	**1,432**
Revenue Support Grant	-	-	-	(110,831)	**(110,831)**
Capital Grants and Contributions	-	-	-	(28,171)	**(28,171)**
Gross Income	**(918,677)**	**267,035**	**(651,642)**	**(317,810)**	**(969,452)**
Surplus or deficit on the provision of services	**197,718**	**13,719**	**211,437**	**(233,684)**	**(22,247)**

2015/16	**Theme Analysis £'000**	**Amounts not reported to management £'000**	**Net Cost of Services £'000**	**Corporate Amounts £'000**	**Total £'000**
Employees	325,976	(13,620)	**312,356**	**-**	**312,356**
Premises	39,843	(11,570)	**28,273**	**-**	**28,273**
Transport	10,631	(6,661)	**3,970**	**-**	**3,970**
Supplies & Services	429,384	(263,825)	**165,559**	**-**	**165,559**
Third Party Payments	124,730	(9,071)	**115,659**	**-**	**115,659**
Transfer Payments	147,884	(1)	**147,883**	**-**	**147,883**
Capital Charges	43,274	8,105	**51,379**	**-**	**51,379**
Capital Financing	-	361	**361**	**-**	**361**
Non Target Recharges	-	25	**25**	**-**	**25**
Levies	-	-	**-**	14,951	**14,951**
Interest Payments	-	-	**-**	35,243	**35,243**
Payments to Housing Capital Receipts Pool	-	-	**-**	2,752	**2,752**
(Gains)/Losses on Disposal of Non Current Assets	-	-	**-**	2,971	**2,971**
Losses on revaluation of Assets Held for Sale	-	-	**-**	19	**19**
Losses on revaluation of Available for Sale Assets	-	-	**-**	-	**-**
Pensions interest cost & expected return on assets	-	-	**-**	21,832	**21,832**
Gross Expenditure	**1,121,722**	**(296,257)**	**825,465**	**77,768**	**903,233**
Specific Grants	(417,384)	-	**(417,384)**	**-**	**(417,384)**
Other Grants & Contributions	(47,386)	9,060	**(38,326)**	**-**	**(38,326)**
Fees & Charges	(189,921)	(3,456)	**(193,377)**	**-**	**(193,377)**
Recharges in Target	(281,389)	281,363	**(26)**	**-**	**(26)**
Other Income	(4,375)	72	**(4,303)**	**-**	**(4,303)**
Interest & Investment Income	**-**	-	**-**	(5,630)	**(5,630)**
Income & expenditure re Investment Properties	**-**	-	**-**	(2,932)	**(2,932)**
Changes in Fair Value of Investment Properties	**-**	-	**-**	4,516	**4,516**
Income from Council Tax	**-**	-	**-**	(80,486)	**(80,486)**
Retained Business Rates	**-**	-	**-**	(50,401)	**(50,401)**
Business Rates Top Up	**-**	-	**-**	(44,630)	**(44,630)**
Collection Fund Deficit	**-**	-	**-**	1,641	**1,641**
Revenue Support Grant	**-**	-	**-**	(81,661)	**(81,661)**
Capital Grants and Contributions	**-**	-	**-**	(25,600)	**(25,600)**
Gross Income	**(940,455)**	**287,039**	**(653,416)**	**(285,183)**	**(938,599)**
Surplus or deficit on the provision of services	**181,267**	**(9,218)**	**172,049**	**(207,415)**	**(35,366)**

25. **Agency Services**

The Council acts as an agent for Growing Places, Growing Priority Sectors (Black Country Growth Deal), the Land Development Fund and Black Country Superfast Broadband monies; the distribution of which is managed by the Black Country Local Enterprise Partnership and Black Country Joint Committee. Grant of £0.852m has been distributed in relation to the Growing Priority Sectors project.

Growing Places funding of £14.4m was received in 2011/12. No additional monies were received for Growing Places during 2015/16.

The Land Development fund is a loans fund for which Public Works Loans Board (PWLB) funding is available. One project progressed through the Land Development Fund in 2014/15 and was repaid in full in 2015/2016. A further project began in 2015/16 claiming loan funding of £1.5m to date.

A sum of £0.9m has been claimed from the Department of Culture, Media and Sport for the Black Country Superfast Broadband project. This money was paid out to the contractor to fund the work of extending superfast broadband across the Black Country.

Only income and expenditure in relation to transactions directly incurred by the council is recognised in its financial statements for these funds where the council acts as the Agent. There were no transactions in 2015/16 or 2014/15.

26. **Pooled Budgets**

Utilising Section 75 of the National Health Act 2006, the council has established joint working arrangements with Sandwell & West Birmingham Clinical Commissioning Group (CCG).

During 2015/16 one pooled budget was hosted by Sandwell MBC and another hosted by the CCG with contributions made from the council. The objectives and performance of each pooled budget in 2015/16 are outlined below;

Better Care Fund – came into operation on 1 April 2015 and is hosted by Sandwell MBC with contributions from CCG. It aims to improve the quality and cost effectiveness of services through greater integration of health, social care and voluntary/third sector provisions. This pool generated a surplus of £0.950m in 2015/16 and in accordance with the agreement in place this will be carried forward into 2016/17.

Mental Health Services – to establish single commissioning arrangements for specialist mental health services within Sandwell, hosted by the CCG. This pool reported a breakeven position in 2015/16. The arrangement ceased on 31 March 2016.

Community Equipment Services - ceased to be a pool in its own right as of 31 March 2015 and has been amalgamated into the larger Better Care Fund Pooled Budget as of 1 April 2015

In each case the standing orders and financial regulations of the pool host will apply to the management of the pool fund and the financial performance of each pool for the year ended 31 March 2016 is shown below. In accordance with the partnership agreements in place, the treatment of any surplus or deficits varies between pools.

Community Equipment 2014/15 £'000	Mental Health 2014/15 £'000		Better Care Fund 2015/16 £'000	Mental Health 2015/16 £'000
1,619	477	Gross Expenditure	23,147	481
(80)	-	Income exc. Partner Contributions	-	-
1,539	**477**	**Net Expenditure**	**23,147**	**481**
		Partner Contributions:		
(783)	(325)	Sandwell & West Birmingham CCG	(23,192)	(287)
-	(40)	Birmingham Cross City CCG	-	(34)
(610)	(205)	Sandwell MBC	(905)	(160)
(1,393)	**(570)**	**Total Contribution**	**(24,097)**	**(481)**
146	**(93)**	**Net (Under) / Over Spend in Year**	**(950)**	-
(202)	-	(Under) / Over Spend B/Fwd	-	-
-	93	(Over) / Under Spend Written Off In Year	-	-
(56)	-	**(Under) / Over Spend C/Fwd**	**(950)**	-

27. **Officers' Remuneration**

Senior Employees

The following tables detail senior officers who form the council's Management Board, including all statutory officers, whose salaries are equal to or more than £50,000 per year.

Position Title 2014/15	Salary, Fees & Allowances £	Other Emoluments £	Total Remuneration exc Pension Contributions £	Employers Pension Contribution £	Total Remuneration inc Pension Contributions £
Chief Executive	138,867	133	**139,000**	18,192	**157,192**
Assistant Chief Executive (a)	37,690	-	**37,690**	4,502	**42,192**
Deputy Chief Executive (b)	92,410	101,944	**194,354**	12,106	**206,460**
Director:					
- Governance Services (c)	38,828	-	**38,828**	4,836	**43,664**
- Legal & Governance Services (d)	75,359	-	**75,359**	10,123	**85,482**
- Strategic Resources (e)	83,765	146,947	**230,712**	10,973	**241,685**
- Improvement & Efficiency (f)	68,611	-	**68,611**	9,424	**78,035**
- Learning & Culture (g)	27,483	56,607	**84,090**	3,600	**87,690**
- Education (Interim) (h)	71,669	-	**71,669**	9,332	**81,001**
- Children's & Families (i)	89,721	-	**89,721**	11,913	**101,634**
- Children's Services (j)	9,656	-	**9,656**	1,106	**10,762**
- Adult Social Care	94,064	-	**94,064**	12,322	**106,386**
- Regeneration & Economy	95,684	-	**95,684**	12,535	**108,219**
- Street Scene	95,684	-	**95,684**	12,535	**108,219**
- Homes & Communities	95,684	-	**95,684**	12,535	**108,219**
- Neighbourhoods	95,684	-	**95,684**	12,535	**108,219**
- Public Health (k)	95,684	-	**95,684**	13,374	**109,058**
Section 151 Officer (l)	15,593	-	**15,593**	2,054	**17,647**

Position Title 2015/16	Salary, Fees & Allowances £	Other Emoluments £	Total Remuneration exc Pension Contributions £	Employers Pension Contribution £	Total Remuneration inc Pension Contributions £
Chief Executive	138,733	-	**138,733**	18,209	**156,942**
Assistant Chief Executive	124,873	-	**124,873**	16,358	**141,231**
Director:					
- Governance Services	101,687	-	**101,687**	13,321	**115,008**
- Education (Interim)	89,308	440	**89,748**	11,699	**101,447**
- Children's Services	115,873	-	**115,873**	15,179	**131,052**
- Children's & Families (m)	93,834	-	**93,834**	12,292	**106,126**
- Adult Social Care	113,306	-	**113,306**	14,843	**128,149**
- Regeneration & Economy	100,469	-	**100,469**	13,161	**113,630**
- Street Scene (n)	100,469	76,109	**176,578**	13,161	**189,739**
- Homes & Communities (o)	75,352	75,280	**150,632**	9,871	**160,503**
- Neighbourhoods	100,469	-	**100,469**	13,161	**113,630**
- Public Health	100,469	-	**100,469**	14,367	**114,836**
Section 151 Officer (p)	18,069	-	**18,069**	2,038	**20,107**
Section 151 Officer (q)	46,096	-	**46,096**	6,097	**52,193**

a) The Assistant Chief Executive was appointed on 4 December 2014 (Annualised salary in 2014/15 was £115,873)
b) The Deputy Chief Executive post was deleted on 31 December 2014 (Annualised salary in 2014/15 was £123,214)
c) The Director of Governance was appointed on 4 December 2014 (Annualised salary in 2014/15 was £114,187)
d) The Director of Legal & Governance post was deleted on 3 December 2014 (Annualised salary in 2014/15 was £114,187)
e) The Director of Strategic Resources post was deleted on 31 December 2014 (Annualised salary in 2014/15 was £111,687)
f) The Director of Improvement & Efficiency post was deleted on 3 December 2014 (Annualised salary in 2014/15 was £101,687)
g) The Director of Learning & Culture departed on 31 July 2014 (Annualised salary in 2014/15 was £101,687)
h) The Director of Education was appointed on 1 June 2014 (annualised salary in 2014/15 was £86,003)
i) The Director of Children’s & Families post became vacant on 1 March 2015 (Annualised salary in 2014/15 was £97,877)
j) The Director of Children’s Services was appointed on 1 March 2015 (Annualised salary in 2014/15 was £115,873)
k) The Director of Public Health was appointed on 1 April 2014
l) The Section 151 Officer was appointed on 1 January 2015 (Annualised salary in 2014/15 was £62,372)
m) The Director of Children’s & Families was appointed 7 April 2015 (Annualised salary in 2015/16 was £95,669)
n) The Director of Street Scene post was deleted on 31 March 2016
o) The Director of Homes & Communities post was deleted on 31 December 2015 (Annualised salary in 2015/16 was £104,469)
p) The Section 151 Officer became vacant on 26 June 2015 (Annualised salary in 2015/16 was £64,418)
q) The Section 151 Officer was appointed on 1 August 2015 (Annualised salary in 2015/16 was £69,812)

The remuneration disclosed in the above table does not include allowances payable in respect of duties associated with the performance of the council’s Returning Officer role.

Other Employees

The number of employees whose remuneration, excluding employer's pension contributions, exceeded £50,000 is shown in the table below grouped into bands of £5,000. Please note this does not include Senior Officers detailed in the previous tables. Due to the high number of redundancy payments made during 2014/15 and 2015/16, numbers excluding these payments have also been included in brackets to enable more accurate comparisons to be made.

Remuneration Band	Number of Employees			
	2014/15		2015/16	
	Schools	Non Schools	Schools	Non Schools
£50,000 - £54,999	60 (60)	26 (14)	68 (68)	45 (43)
£55,000 - £59,999	38 (37)	25 (13)	32 (32)	7 (7)
£60,000 - £64,999	38 (38)	21 (17)	38 (37)	20 (20)
£65,000 - £69,999	19 (17)	26 (23)	23 (23)	21 (20)
£70,000 - £74,999	11 (10)	4 (0)	10 (9)	1 (0)
£75,000 - £79,999	7 (6)	7 (0)	5 (5)	0 (0)
£80,000 - £84,999	3 (3)	1 (0)	8 (8)	0 (0)
£85,000 - £89,999	5 (5)	1 (0)	4 (4)	1 (0)
£90,000 - £94,999	1 (1)	1 (0)	3 (2)	0 (0)
£95,000 - £99,999	1 (1)	0 (0)	1 (1)	1 (0)
£100,000 - £104,999	0 (0)	0 (0)	1 (1)	0 (0)
£105,000 - £109,999	0 (0)	0 (0)	0 (0)	1 (0)
£110,000 - £114,999	0 (0)	0 (0)	0 (0)	0 (0)
£115,000 - £119,999	2 (2)	1 (0)	0 (0)	1 (0)
£120,000 - £124,999	0 (0)	0 (0)	1 (1)	0 (0)
£125,000 - £129,999	0 (0)	0 (0)	0 (0)	0 (0)
£130,000 - £134,999	0 (0)	0 (0)	1 (0)	0 (0)
£135,000 - £139,999	0 (0)	0 (0)	0 (0)	0 (0)
£140,000 - £144,999	0 (0)	1 (0)	0 (0)	0 (0)
£145,000 - £149,999	0 (0)	0 (0)	0 (0)	0 (0)
£150,000 - £154,999	0 (0)	0 (0)	0 (0)	0 (0)
£155,000 - £159,999	0 (0)	0 (0)	0 (0)	0 (0)
£160,000 - £164,999	0 (0)	0 (0)	0 (0)	0 (0)
£165,000 - £169,999	0 (0)	0 (0)	0 (0)	0 (0)
£170,000 - £174,999	0 (0)	1 (0)	0 (0)	0 (0)
	185 (180)	**115 (67)**	**195 (191)**	**98 (90)**

28. **Members Allowances**

The total amount paid during 2015/16 to elected members of the council in respect of basic and special responsibility allowances was £1.231m (£1.329m in 2014/15).

29. **External Audit Costs**

	2014/15 £'000	2015/16 £'000
Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	271	199
Fees payable to KPMG for the certification of grant claims and returns for the year	24	16
Fees payable in respect of other services provided by KPMG during the year	5	16
Total	**300**	**231**

A subsidy of £0.023m was received from the Audit Commission in 2014/15, this is not included within the table above. No subsidy was received in 2015/16.

30. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by the Dedicated Schools Grant (DSG) provided by the Department for Education. An element of DSG is recouped by the department to fund academy schools in the area. 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 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.

	Central Expenditure £000	ISB £000	Total £000
Final DSG For 2015-16 Before Academy Recoupment			282,198
Academy Figure Recouped for 2015-16			88,502
Total Final DSG After Academy Recoupment for 2015-16			**193,696**
Bought Forward From 2014-15			-
Agreed Initial Budgeted Distribution in 2015-16	**39,118**	**154,578**	**193,696**
In Year Adjustments	**158**	-	158
Final Budgeted Distribution for 2015-16	**39,276**	**154,578**	**193,854**
Less Actual Central Expenditure	38,864	-	38,864
Less Actual ISB Deployed To Schools	-	154,578	154,578
Local Authority Contribution For 2015-16	-	-	-
Carry Forward To 2016-17	**412**	-	**412**

31. Grant Income

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the grantor. The council presents Grants Receipts in Advance for capital and revenue separately and also splits them between current and long term liabilities. The balances at each year end are as follows:

Capital Grants Receipts in Advance	**31 March 2015 £'000**	**31 March 2016 £'000**
Short Term:		
Renewal & Growth	1,379	1,264
Standards Fund	1,230	1,140
Local Transportation Plan Grant	627	-
Other Grants	521	344
Other Contributions	2,337	240
	6,094	**2,988**
Long Term:		
Section 106	2,942	3,280
Other Grants	620	3,193
Other Contributions	27	326
	3,589	**6,799**
Total	**9,683**	**9,787**

Revenue Grants Receipts in Advance	**31 March 2015 £'000**	**31 March 2016 £'000**
Other Grants	594	240
Total	**594**	**240**

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

Credited to Taxation and Non Specific Grant Income	**2014/15 £'000**	**2015/16 £'000**
Schools Basic Need Grant	8,598	10,904
Local Transportation Plan Grant	6,172	5,320
Schools Capital Maintenance Grant	3,246	2,990
Challenge Fund Grant	-	2,798
Lottery Funding	896	1,639
Standards Fund	710	781
Renewal & Growth	94	74
Other Grants	4,938	430
Other Contributions	3,517	664
Total	**28,171**	**25,600**

Credited to Services	**2014/15 £'000**	**2015/16 £'000**
Dedicated Schools Grant	197,486	193,854
Rent Rebates	76,946	75,983
Rent Allowances	58,632	58,387
Public Health Grant	21,291	23,433
Pupil Premium Grant	15,644	15,665
Private Finance Initiative Grant	7,822	7,822
Housing Subsidy	5,713	5,713
New Homes Bonus	3,913	5,378
Business Rates Compensation Grant	3,412	4,280
Education Services Grant	4,932	3,959
Young People's Learning Agency	3,564	3,512
Universal Infant Free School Meals	1,993	3,047
Benefit Administration Grant	2,783	2,556
Families & Communities Grant	1,409	1,875
Skills Funding Agency	2,252	1,849
New Care Act Burden Grant	-	1,619
Council Tax Reduction Grant	1,043	1,051
Local Reform & Community Voices Grant	459	1,533
Academic Development Funding	2,916	-
Social Fund Grant	1,593	-
Other Grants	7,694	5,868
Total	**421,497**	**417,384**

32. **Related Parties**

Under the Code, the council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. The council has identified the following as its related parties;

Central Government - Central Government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Receipts in respect of the Revenue Support Grant and Non Domestic Rates are shown in the Comprehensive Income & Expenditure Statement on page 13. Details of other grants received are analysed in more detail in Note 31.

Other Public Bodies - West Midlands Police and Crime Commissioner and the West Midlands Fire and Rescue Authorities, for which details can be found on page 93 as part of the Collection Fund Revenue Account, levy precepts on the council. In addition a levy from the West Midlands Integrated Transport Authority totalling £14.837m and a Flood Defence levy of £0.078m were made during the financial year.

Members - A register of Members' pecuniary and non pecuniary interests is held and is available to view on the council's website. The register has been examined and although a number of Elected Members serve on outside bodies that receive some form of financial support from the council, these are not all material.

However, Councillor B Lloyd has been identified as Trustee (Chair) for Murray Hall Community Trust a partner of Health for Living that provides services at former Sure Start Children Centres. The council made payments totalling £3.122m to these organisations in 2015/16 and received £0.094m in relation to goods and services supplied by the council to them.

Councillor L Horton and Councillor P Hughes are both Directors of Sandwell Leisure Trust.

In 2015/16 payments made to other organisations where Members have declared an interest totalled £0.887m and income received totalled £0.022m.

Chief Officers and Other Officers - The Chief Executive Officer has been identified as a Governor of Sandwell College. The Assistant Chief Executive has been identified as a Director of Sandwell Futures Ltd and Environments for Learning Sandwell PFI One Ltd. There were no other significant transactions between the council and its Directors and related parties identified during the year.

Other Organisations

The council made grants to voluntary organisations amounting to £5.160m during 2015/16.

Sandwell Leisure Trust (SLT) is a charitable company limited by guarantee that manages sports facilities and provides sports development in Sandwell. The principal income of the leisure trust is from the council, which takes the form of a management fee. The amount paid in 2015/16 was £3.692m which included the management fee and other fees. Amounts received from the SLT for services provided by the Council was £0.541m. The council is currently in discussions with SLT in regards to the future arrangements of the contract.

Sandwell Futures Ltd is a Local Education Partnership (LEP) established under the Building Schools for the Future (BSF) initiative. The council made total payments of £18.160m to the LEP during 2015/16 mainly relating to the building and renovation costs of schools. The council has a 10% shareholding and a £113k holding of 10% loan stock in the company. The council also has a direct shareholding in Environments for Learning Sandwell PFI One Ltd (the special purpose vehicle established by the LEP) and a £520k holding of 10% loan stock. Interest on these investments of £0.086m has been received in 2015/16.

Sandwell Inspired Partnership Services (SIPS) was established as an Industrial and Provident Society on 1 January 2013 for the delivery of support services to schools. The council made payments totalling £1.444m to SIPS in 2015/16 and received £0.351m in relation to goods and services supplied by the council to SIPS in the same year.

The Sandwell Land and Property Company (SLP) was established on 31 March 2011 in order to protect and maintain ownership of land and property currently occupied by school establishments. The council is the sole shareholder of SLP. Under the Code the company is classed as a subsidiary of the council; their financial activities have been consolidated 100% into the financial statements. The SLP is a company limited by shares, the liability of the council in the event of the winding up of the company is limited to the sum of £1.

33. Capital Expenditure and Capital Financing

	2014/15 £'000	2015/16 £'000
Opening Capital Financing Requirement	**789,313**	**793,668**
Capital Investment		
Property Plant & Equipment	104,763	84,774
Heritage Assets	-	-
Investment Properties	758	171
Intangible Assets	157	1,527
Long Term Debtors	-	-
REFCUS	6,405	6,342
PFI Prepayments	75	-
Sources of Finance		
Capital Receipts	(10,795)	(9,634)
Government Grants & Other Contributions	(26,543)	(28,295)
Major Repairs Reserve	(11,499)	(11,852)
Direct Revenue Contributions	(30,303)	(33,108)
Minimum Revenue Provision	(28,663)	(30,215)
Closing Capital Financing Requirement	**793,668**	**773,378**
Explanation of Movements in Year		
Increase / (Decrease) in underlying need to borrow (supported by government financial assistance)	-	-
Increase / (Decrease) in underlying need to borrow (unsupported by government financial assistance)	4,355	(20,290)
PFI Expenditure	-	-
Increase/(decrease) in Capital Financing Requirement	**4,355**	**(20,290)**

34. Capital Commitments

The council has to plan its capital spending in advance of work proceeding. As at 31 March 2016 the council had allocated resources to a five year programme covering the period 2016/17 to 2020/21 that amount to £408.549m. The main areas to where these resources have been allocated are the council's housing investment programme (£281.600m), the primary school capital programme (£26.948m), adaptations for disabled (£26.344m), and structural maintenance of roads and bridges (£14.929m).

Included within the five year programme are amounts which are legally committed as at 31 March 2016 that amount to £168.633m.

35. **Leases**

Council as Lessee

The council does not have any material finance leases where it is the lessee.

The council has acquired a number of administrative buildings by entering into operating leases. The future minimum lease payments due under non cancellable leases in future years are;

31 March 2015 £'000		31 March 2016 £'000
1,787	Not later than 1 year	1,340
4,913	Later than 1 year and not later than 5 years	4,711
13,970	Later than 5 years	12,904
20,670		**18,955**

The council sub-lets some of these assets to third parties and expects to receive future minimum sublease payments of £0.038m.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was;

2014/15 £'000		2015/16 £'000
	Minimum lease payments:	
637	- Non Distributed Costs	769
194	- Adult Social Care	201
717	- Planning Services	567
79	- Children's & Education Services	30
77	- Cultural & Related Services	87
150	- Housing Revenue Account (HRA)	-
1,854		**1,654**
(42)	**Sublease payments receivable**	**(37)**
1,812		**1,617**

Council as Lessor

The council does not lease out any of its assets under the terms of finance leases.

The council leases out property under operating leases for economic development purposes to provide suitable affordable accommodation for local businesses. The future minimum lease payments receivable under non cancellable leases in future years are;

31 March 2015 £'000		31 March 2016 £'000
4,606	Not later than 1 year	4,699
12,081	Later than 1 year and not later than 5 years	12,337
151,115	Later than 5 years	160,392
167,802		**177,428**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

36. **Private Finance Initiatives and Similar Contracts**

Private Finance Initiatives

Riverside Housing

The council entered into a 25 year agreement with Riverside Housing Association on 27 March 2006 for the refurbishment of council dwellings on the Harvills Hawthorn and Millfields estates. In addition to the planned refurbishments this scheme also includes 132 new build homes and 67 'Walls In Walls Out'.

The council has the right to use the specified assets for the duration of the project agreement and the right to expect the provision of housing management services. At the end of the concession period the specified assets will transfer back to the council in line with predetermined standards. Both parties have the right to terminate the contract should the contract no longer represent value for money. The council has a right to terminate the agreement in instances of contractor default, persistent breach and voluntary termination. The unitary charge for 2015/16 was £8.511m (£8.457m in 2014/15).

The contract is now into the housing management and life cycle works phase, as the initial capital investment works including demolitions have been completed. Over the remainder of the contract £17m will be spent on lifecycle works to maintain the homes at the level of decency as specified in the contract.

Rowley Campus

Under the national Building Schools for the Future (BSF) programme the council entered into a 25 year agreement with Environments for Learning (E4L) for it to design, build, finance and operate the Rowley Campus. This is a co-location of the former St Michaels High School, Whiteheath Pupil Referral Unit and Westminster Special School and became fully operational in June 2011.

The council has a right to use the Rowley Campus for the length of the project agreement (25 years ending Qtr 1 2036) and has the right to expect provision of a range of facilities management and lifecycle services. At the end of the project agreement the assets will revert back to the council's ownership. The contract for tested services (including caretaker services and porterage, cleaning and waste management, grounds, gardens and playing fields maintenance, security services and catering) is to be market tested on the 10th anniversary of service commencement and every 5 years thereafter. The council can issue a voluntary termination giving 20 days notice or can terminate upon contractor default or persistent breach or breach of refinancing provisions. The contractor can also terminate upon default by the council giving 30 days notice.

The unitary charge payments made during 2015/16 totalled £6.697m (2014/15 was £6.633m). The total capital cost of the scheme is in the region of £44.955m.

Total Schools Solutions

The council entered into a 25 year contract in September 2003 with Total Schools Solutions Ltd to design, build, finance and operate 5 primary schools, replacing the council's existing provision.

The council has the right to use the 5 schools which were constructed under the contract (the last school being completed in 2004) for the length of the project agreement and has the right to expect the provision of a range of facilities management (FM) and lifecycle services. The schools will be handed back to the council on the contract expiry date (quarter 4 2029) in a condition which complies with the handback requirements as set out in the project agreement. The contract for the soft FM services (including general management, cleaning, ground maintenance, security,

etc) is to be retendered every 5 years. The council can issue a voluntary termination giving a notice of between 6 and 12 months or can terminate upon contractor default. The contractor can also terminate upon default by the council within a period of 120 days following the default.
The unitary charge for 2015/16 was £2.652m (2014/15 was £2.631m).

Portway Lifestyle Centre
The council entered into a 25 year contract with Sandwell Property Partnership (Lift Co) to design, build, finance and carry out hard facilities maintenance at the Portway Lifestyle Centre, which became operational in September 2013.

The council has a lease plus agreement giving it the right to utilise the majority of the building as a leisure centre and a small adult services day care centre. The remainder of the building is leased by Sandwell Property Partnership to a GP Service. The council has the right to expect the provision of facilities management (FM) and lifecycle services and sub lets its share of the building to Sandwell Leisure Trust, who are responsible for soft facilities management (caretaker, cleaning and security services). The council will have an option to buy the building at the contract expiry date (quarter 2 2038) and also has the right to exercise the option to purchase during the contract period, upon serving an option notice to the landlord. The council has a right to terminate the agreement in instances of landlord default, and where it is acting in line with the strategic Service Development Plan under the Strategic Partnering Agreement, letting the premises to an acceptable tenant to the landlord or selling its interest in the site, so long as this does not create an economic disadvantage to the landlord.

The unitary charge for 2015/16 was £1.261m (2014/15 was £1.256m).

The table below details the movement on the liabilities held on the council's balance sheet relating to PFI and service concession contracts:

		Riverside Housing £'000	Total School Solutions £'000	BSF Rowley Campus £'000	Portway £'000	Total PFI Schemes £'000	Service Concessions £'000	Total Finance Lease Liabilities £'000
Balance at 31 March 2015	- Current	(1,759)	(351)	(960)	(420)	(3,490)	(1,182)	(4,672)
	- Long Term	(30,224)	(8,567)	(40,983)	(8,672)	(88,446)	(3,924)	(92,370)
Balance at 31 March 2016	- Current	(1,709)	(387)	(1,048)	(383)	(3,527)	(1,187)	(4,714)
	- Long Term	(29,191)	(8,180)	(39,935)	(8,295)	(85,601)	(2,737)	(88,338)
Movement in Year		**1,083**	**351**	**960**	**414**	**2,808**	**1,182**	**3,990**
Analysis of Movement in Year:								
Write down of liability		1,083	351	960	414	2,808	1,182	3,990
		1,083	**351**	**960**	**414**	**2,808**	**1,182**	**3,990**

The table below provides a schedule of unitary payments due to be made under PFI contracts, split over their component parts:

	Within 1 Year £'000	Within 2 - 5 Years £'000	Within 6 - 10 Years £'000	Within 11 - 15 Years £'000	Within 16 - 20 Years £'000	Within 21 - 25 Years £'000
Riverside Housing PFI						
Liability Repayments	1,709	7,573	5,296	10,070	-	-
Interest Charges	3,206	12,291	11,989	11,169	-	-
Operating Costs	2,457	10,555	14,888	16,832	-	-
Lifecycle Costs	1,794	7,772	19,193	5,438	-	-
	9,166	**38,191**	**51,366**	**43,509**	-	-
Total School Solutions PFI						
Liability Repayments	387	2,000	3,925	4,146	-	-
Interest Charges	1,375	5,228	5,524	2,724	-	-
Operating Costs	816	3,346	4,374	3,345	-	-
Lifecycle Costs	101	416	543	455	-	-
	2,679	**10,990**	**14,366**	**10,670**	-	-
BSF Rowley Campus PFI						
Liability Repayments	1,048	4,103	6,947	11,688	17,196	-
Interest Charges	3,919	15,017	17,461	14,757	9,809	-
Operating Costs	1,631	6,526	8,157	8,157	8,220	-
Lifecycle Costs	111	1,668	2,745	2,164	2,525	-
	6,709	**27,314**	**35,310**	**36,766**	**37,750**	-
Portway PFI						
Liability Repayments	383	1,590	1,929	1,676	2,240	2,147
Interest Charges	449	1,853	1,887	1,433	946	207
Operating Costs	361	1,553	2,208	2,548	2,942	1,566
Lifecycle Costs	4	381	736	1,441	1,546	533
	1,197	**5,377**	**6,760**	**7,098**	**7,674**	**4,453**
Total Payments	**19,751**	**81,872**	**107,802**	**98,043**	**45,424**	**4,453**

The table below shows the movement on the carrying amount of the PFI assets held within the council's balance sheet:

	Council Dwellings (Riverside) £'000	Land & Buildings (Total Schools) £'000	Land & Buildings (Rowley Campus) £'000	Land & Buildings (Portway) £'000	Total £'000
Balance as at 1 April 2015	**31,194**	**16,554**	**24,773**	**11,765**	**84,286**
Additions	862	219	106	1	1,188
Revaluations	(259)	1,375	-	-	1,116
Re-classifications	(189)	-	-	-	(189)
In Year Depreciation	(487)	(412)	(669)	(265)	(1,833)
Depreciation Written Out	489	1,814	-	-	2,303
Balance as at 31 March 2016	**31,610**	**19,550**	**24,210**	**11,501**	**86,871**

Similar Contracts

Serco Waste Contract

The council entered into a 25 year contract with Serco Limited on 9 November 2010 to cover the delivery of waste and cleansing services across the borough.

At the commencement of the contract Sandwell MBC transferred its fleet of waste disposal vehicles over to Serco at nil value, however for the duration of the contract Serco will be solely responsible for the replacement of the vehicle fleet to ensure they are of a standard to provide the services required by the contract. All vehicles transferred by the council and subsequently purchased by Serco will be solely used for the delivery of this contract for the assets' entire lives. Ownership of these assets will revert back to the council at the end of the agreement.

The council owned depot located at Shidas Lane is to be leased to Serco for the duration of the contract for which a peppercorn rent is payable. Serco have also developed a new waste disposal site on behalf of the council on a site previously purchased by SMBC, under a standard construction contract. This asset was financed from the council's capital programme and was fully operational at 31 March 2013.

Upon default by the council, Serco may terminate the contract by giving 30 days notice. The termination notice must be served within 30 days of the contractor becoming aware of the default. The council may terminate the contract where the contractor fails to rectify defaults notified to them by the council, or on the occurrence of persistent breach of the contract. The council made payments of £20.130m in 2015/16 to Serco Limited (£20.579m in 2014/15).

37. Impairment Losses and Reviews

During 2015/16 net impairment losses totalling £5.907m have been identified in relation to the council's non current assets. There has been no reversal of impairment losses recognised in previous years.

The council's external valuers have carried out a number of impairment reviews to determine whether there have been any material changes in property values between 1 April 2015 and 31 March 2016. The valuers have concluded that there have been no circumstances in the local property market that would require additional impairment adjustments to be applied to the value of council dwellings, general land and buildings or investment properties.

38. Termination Benefits

The council terminated the contracts of a number of employees in 2015/16 to meet the ongoing challenges of the difficult economic climate and budget reductions.

In total 115 employees left the council's employment during the year incurring liabilities of £5.127m. In 2014/15 a provision of £2.791m was created for future approved redundancies as at 31 March 2015, £2.565m of this provision was utilised in 2015/16 in relation to 39 employees. Remaining costs of £2.562m have been met from the council's available resources.

Outstanding costs relating to employees leaving in 2015/16 totals a further £0.419m, however this liability will be incurred during 2016/17. There is also agreement in place for a further 8 employees to leave the council during 2016/17 at an estimated cost of £0.756m. A provision has therefore been made for future and outstanding termination benefit costs of £1.175m, which are expected to be incurred in 2016/17.

The table below summarises the exit packages that the council has provided for:

Band	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band (£'000)	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0 - £20,000	77	6	108	32	185	38	1,576	492
£20,001 - £40,000	17	1	64	18	81	19	2,372	591
£40,001 - £60,000	11	-	20	10	31	10	1,500	561
£60,001 - £80,000	-	-	12	5	12	5	862	428
£80,001 - £100,000	1	-	7	3	8	3	750	283
£100,001 - £150,000	-	1	14	4	14	5	1,658	588
£150,001 - £200,000	-	-	-	3	-	3	-	515
£201,000 - £250,000	-	-	1	-	1	-	210	-
£250,001 - £300,000	-	-	1	1	1	1	266	279
	106	**8**	**227**	**76**	**333**	**84**	**9,194**	**3,737**

39. **Defined Benefit Pension Schemes**

As part of the terms and conditions of employment of its officers and other employees, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The council participates in three pension schemes:

Teachers

The teachers employed by the council are members of the Teachers Pension Scheme (TPS) which is a defined benefit multi employer scheme operated by the Department for Education (DFE). The scheme is managed by the Teachers Pensions Agency under the Teachers Pensions Regulations 1997. The Teachers Pensions Fund is accounted for as a defined contribution scheme in line with the requirements of IAS19 since the scheme is notionally funded and for which underlying liabilities cannot be identified on a consistent basis.

In 2015/16 the council paid £10.061m (2014/15 £9.247m) to the DFE in respect of teachers' pension costs. This represents 16.48% of teacher's pensionable pay. Estimated contributions for 2016/17 are £10.793m which is again representative of a contribution rate of 16.48%. In addition, the council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2015/16 these amounted to £3.307m (2014/15 £3.361m). A liability is shown on the balance sheet and the movement in reserves statement in respect of the council's obligation to pay added years benefits.

NHS Pensions

On 1 April 2013, NHS employees transferred to the council into a new Public Health directorate. These employees have maintained their membership to the NHS Pension Scheme, which is an unfunded defined benefit scheme. The scheme is however accounted for as a defined contribution scheme since the council is not able to identify reliably its share of the underlying liabilities.

In 2015/16 the council paid £0.085m (2014/15 £0.122m) to the NHS Pension Scheme in respect of former NHS staff retirement benefits, representing 14.3% of pensionable pay. Estimated contributions for 2016/17 are £0.076m based on a contribution rate of 14.3.%.

Other Employees

Other employees of the council contribute to the Local Government Pension Scheme (LGPS) which is a defined benefit scheme. In 2015/16 the council paid an employer's pension contribution of £17.938m (2014/15 £17.886m) based on 13.1% of employee's pensionable pay into the West Midlands Metropolitan Authorities Pension Fund, which provides members with defined benefits related to pay and service. The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations. Estimated contributions for 2016/17 are £18.112m. The last review was completed at 31 March 2013, the outcome of the most recent review as at 31 March 2016 is currently awaited. Under Superannuation Regulations contribution rates are set to meet the overall liabilities of the Fund.

In addition, the council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2015/16 these amounted to £1.569m (2014/15 £1.597m) representing 1% of pensionable pay. The capital cost of awarding discretionary additional benefits relating to the year 2015/16 was £2.241m (2014/15 £3.773m). These costs have been met from revenue.

The Fund's Actuary has advised that in 2016/17 an employer's contribution rate of 27.52% of employee's pensionable pay, will ensure that overall fund liabilities should be met over time. This is split between future service contribution rate of 13.1% and deficit recovery rate of 14.42% and will be reviewed as part of the triennial valuation. Revised contribution rates will apply from 1 April 2017/18.

Transactions Relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by the employee, rather than when the benefits are eventually paid as pensions. However, so that the charge required against council tax is based on cash payable in the year, the real cost of retirement benefits is reversed out in the Movement in Reserves Statement.

The following transactions have been made in year:

Comprehensive Income and Expenditure Statement	**Local Government**		**Teachers Pension**	
	2014/15 £'000	**2015/16 £'000**	**2014/15 £'000**	**2015/16 £'000**
Cost of Services				
Current service costs	26,787	33,529	-	-
Past service costs	93	-	-	-
Settlements and curtailments	(600)	(1,540)	26	-
Administration expenses	408	442	-	-
Financing and Investment Income and Expenditure				
Net interest expense	20,976	20,299	2,005	1,533
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**47,664**	**52,730**	**2,031**	**1,533**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Account				
Remeasurement of the net defined benefit liability comprising:				
- Return on plan assets (excluding the amount included in net interest expense)	(97,493)	37,381	-	-
- Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
- Actuarial gains and losses arising on changes in financial assumptions	227,312	(87,159)	4,107	1,955
- Experience (gain) / loss	-	-	-	-
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**177,483**	**2,952**	**6,138**	**3,488**

Movement in Reserves Statement	Local Government 2014/15 £'000	Local Government 2015/16 £'000	Teachers Pension 2014/15 £'000	Teachers Pension 2015/16 £'000
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	47,664	52,730	2,031	1,533
Actual amount charged against the General Fund Balance for pensions in the year				
Employer's Contributions payable to scheme	32,748	36,234	-	-
Retirement benefits payable to pensioners	-	-	3,361	3,307

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 is a loss of £369.281m relating to the LGPS, and a loss of £16.592m in relation to the Teachers Pension Scheme.

Further information regarding other employee's pensions can be found in the West Midlands Authorities Superannuation Fund's Annual Report, which is available upon request from:

West Midlands Pension Fund, Civic Centre, St Peter's Square, Wolverhampton, WV1 1SL

The assets and liabilities attributable to the council for both the LGPS and the TPS as at 31 March 2016 have been provided by the Funds' Actuary and are detailed below:

Reconciliation of present value of the scheme liabilities	Local Government 2014/15 £'000	Local Government 2015/16 £'000	Teachers Pension 2014/15 £'000	Teachers Pension 2015/16 £'000
Opening Balance at 1st April	**1,390,617**	**1,668,065**	**48,315**	**51,092**
Current Service Cost	26,787	33,529	-	-
Interest on pension liabilities	61,626	54,298	2,005	1,533
Contributions by scheme participants	8,822	8,822	-	-
Remeasurement (gain) / loss:				
- Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
- Actuarial gains and losses arising on changes in financial assumptions	227,312	(87,159)	4,107	1,955
- Experience (gain) / loss	-	-	-	-
Benefits paid	(46,089)	(49,282)	(3,361)	(3,307)
Past service costs / Curtailment	3,806	1,367	26	-
Settlements	(4,816)	(3,305)	-	-
Closing Balance at 31st March	**1,668,065**	**1,626,335**	**51,092**	**51,273**

Reconciliation of fair value of the scheme assets	Local Government 2014/15 £'000	Local Government 2015/16 £'000
Opening Balance at 1st April	**900,057**	**1,032,770**
Interest Income	40,650	33,999
Remeasurement gain / (loss)	97,493	(37,381)
Administration expenses	(408)	(442)
Settlements	(503)	(398)
Employers contributions	32,748	36,234
Contributions by scheme participants	8,822	8,822
Benefits paid	(46,089)	(49,282)
Closing Balance at 31st March	**1,032,770**	**1,024,322**

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Present Value of Liabilities					
Local Government Pension Scheme (funded)	(1,272,464)	(1,508,258)	(1,371,430)	(1,647,900)	(1,608,078)
Local Government Pension Scheme (unfunded)	(20,876)	(21,886)	(19,187)	(20,165)	(18,257)
Teachers Pension Scheme (unfunded)	(46,637)	(51,472)	(48,315)	(51,092)	(51,273)
Total Present Value of Liabilities	**(1,339,977)**	**(1,581,616)**	**(1,438,932)**	**(1,719,157)**	**(1,677,608)**
Fair Value of assets in the local government pension scheme	**817,023**	**910,667**	**900,057**	**1,032,770**	**1,024,322**
Surplus / (Deficit) in the scheme:					
Local Government Pension Scheme (LGPS)	(476,317)	(619,477)	(490,560)	(635,295)	(602,013)
Teachers Pension Scheme (TPS)	(46,637)	(51,472)	(48,315)	(51,092)	(51,273)
Total	**(522,954)**	**(670,949)**	**(538,875)**	**(686,387)**	**(653,286)**

The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The total liability of £1.678m has a substantial impact on the net worth of the council as recorded in the Balance Sheet in a negative overall balance of £653m, however statutory arrangements for funding the deficit mean that the financial position of the council remains healthy. The deficit on the LGPS will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The Local Government Pension Scheme’s assets comprise of the following asset categories:

Asset Category	**2014/15 £'000**	**2015/16 £'000**
Equities	610,056	619,945
Bonds	191,166	127,516
Property	90,161	84,471
Alternatives	99,146	145,603
Cash	42,241	46,787
Total	**1,032,770**	**1,024,322**

Basis for Estimating Assets & Liabilities

Pension fund liabilities for both schemes 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 mortality rates, salary levels, etc. Barnett Waddingham, an independent firm of actuaries, has assessed the liabilities of both schemes. The main assumptions used in their calculations have been:

	Local Government		**Teachers Pension**	
	2014/15	**2015/16**	**2014/15**	**2015/16**
Mortality Assumptions				
Longevity at 65 for current pensioners				
Men	23.0	23.0	23.0	23.0
Women	25.6	25.7	25.6	25.7
Longevity at 65 for future pensioners				
Men	25.2	25.3		
Women	28.0	28.0		
Rate of CPI Inflation	2.00%	2.00%	2.00%	2.00%
Rate of Increase In Salaries (LGPS)	3.75%	3.75%		
Rate of Increase In Pensions	2.00%	2.00%	2.00%	2.00%
Discount Rate	3.30%	3.60%	3.10%	2.70%

40. **Contingent Assets and Liabilities**

Contingent Liabilities

There are presently 7 civil litigation claims (9 in 2014/15) and 5 employment tribunal cases (8 in 2014/15).

Equal Pay

The council has in recent years received a number of claims for back pay arising from the Equal Pay Initiative. It is not certain that all valid claims have yet been received by the council or that precedents set by other authorities in the settlement of claims will be applicable. A provision of £0.011m for Equal Pay has been calculated based on an assessment of potential claims.

Municipal Mutual Insurance Co Ltd (MMI)

Municipal Mutual Insurance Co Ltd (MMI), through which the council had part of its insurance, ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not know the full extent of its liability claims as it may take a number of years for them to arise, however the company has continued to settle claims in an orderly manner. To prevent the costs associated with an insolvent run off, the company entered into a scheme of arrangement with its creditors, which was triggered in 2012/13. A levy amounting to 15% of the total claim payments was previously issued to all the members of the scheme and has since been settled by the Council. The scheme administrator recently issued a further 10% levy to all scheme members and this is now due for payment by the Council.

Contingent Assets

The council has placed tax claims for postage, landfill tax and compound interest with legal counsel. No values can be placed on these claims at this time, the periods and nature of the supplies recoverable will be part of the ruling in the lead cases.

An accrual has not been made within the 2015/16 accounts, as the exact amount of the potential asset involved cannot be accurately determined at this time.

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2014/15 £'000		2015/16 £'000
	Income:	
124,075	Dwelling Rents	124,707
2,108	Non-Dwelling Rents	1,509
3,724	Charges for Services & Facilities	3,044
5,714	PFI Grant	5,713
135,621	**Total Income**	**134,973**
	Expenditure:	
31,852	Repairs & Maintenance	31,010
18,544	Supervision & Management	23,552
4,049	Rent, Rates, Taxes & Other Charges	1,140
3,620	PFI Contract	3,537
11,760	Depreciation & Impairment of Non Current Assets	14,006
202	Debt Management Costs	-
219	Increase in Bad Debt Provision	855
70,246	**Total Expenditure**	**74,100**
(65,375)	**Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Account**	**(60,873)**
360	HRA Services share of Corporate and Democratic Core	568
(65,015)	**Net Cost of HRA Services**	**(60,305)**
(3,077)	(Gain) or loss on sale of HRA Non Current Assets	(949)
(1,468)	(Gain) or loss on revaluation of HRA Non Current Assets	805
-	Loss on revaluation of Assets Held for Sale	19
3,085	PFI Interest payable and similar charges	3,029
3,066	Pensions Interest Costs	1,133
22,753	Interest payable and similar charges	21,827
(1)	Interest and investment income	(126)
(402)	Income & Expenditure in relation to Investment Properties	(520)
(2,523)	Capital grants and contributions receivable	-
(43,582)	**(Surplus) / Deficit for the year on HRA services**	**(35,087)**

2014/15 £'000		2015/16 £'000
(32,966)	Balance on the HRA at the end of the previous reporting period	**(34,677)**
(43,582)	(Surplus)/deficit for the year on the Income and Expenditure Statement	(35,087)
40,743	Adjustments between accounting basis and funding basis under statue	35,255
(2,839)	Net increase/(decrease) before transfers to or from reserves	168
1,128	Transfers to/(from) earmarked reserves	(212)
(1,711)	(Increase)/decrease in year on the HRA	**(44)**
(34,677)	Balance on the HRA at the end of the current reporting period	**(34,721)**

2014/15 £'000		2015/16 £'000
	Items included in the HRA Income & Expenditure Statement but excluded from the Movement on HRA Balance for the year	
(11,760)	Depreciation & impairment of Non Current Assets	(14,006)
3,077	Gain or loss on sale of HRA Non Current Assets	949
1,468	Gain or loss on revaluation of HRA Non Current Assets	(805)
-	Loss on revaluation of Assets Held for Sale	(19)
2,523	Capital grants and contributions receivable	-
(1,822)	Pension Reserve Adjustments	(822)
133	Accumulated Compensated Absences Account	216
(6,381)		**(14,487)**
	Items not included in the HRA Income & Expenditure Statement but included in the Movement on HRA Balance for the year	
16	Amortisation of premiums, discounts & LOBOs	25
1,105	PFI Finance Lease Creditor	1,083
648	PFI Capital expenditure funded by the HRA	862
23,748	Capital expenditure funded by the HRA	25,145
11,499	Net transfer to / (from) Major Repairs Reserve	11,852
10,108	Minimum Revenue Provision	10,775
47,124		**49,742**
40,743	**Net additional amount required by statute to be credited to the HRA Balance for the year**	**35,255**

1. **Housing Stock as at 31st March**

Total No. 2015	Dwelling Type	Pre 1945	1945 to 1964	Post 1964	Total No. 2016
	1 Bedroom				
2	Houses	-	1	2	**3**
6,266	Flats	222	1,520	4,505	**6,247**
1,380	Bungalows	386	317	675	**1,378**
	2 Bedroom				
3,202	Houses	1,687	900	599	**3,186**
4,910	Flats	131	2,424	2,340	**4,895**
124	Bungalows	3	53	69	**125**
	3 Bedroom				
12,322	Houses	7,155	3,084	1,936	**12,175**
595	Flats	49	321	227	**597**
12	Bungalows	1	1	10	**12**
	4 Bedroom				
606	Houses	425	144	43	**612**
2	Bungalows	-	-	2	**2**
	5 Bedroom				
10	Houses	8	2	-	**10**
	6 Bedroom				
2	Houses	-	1	1	**2**
	8 Bedroom				
1	Houses	-	-	1	**1**
29,434	**Total Stock**	**10,067**	**8,768**	**10,410**	**29,245**

The housing stock at 31 March 2016 includes 1,046 council dwellings (1,052 at 31 March 2015) included within the Riverside Housing PFI contract, which are included on the council's Balance Sheet.

2. Balance Sheet Movement in HRA Non Current Assets

	Council Dwellings £'000	Land & Building £'000	Intangible	Equipment £'000	Assets Not Held for Sale £'000	Assets Held for Sale £'000	Assets under Construction £'000	Investment Properties £'000	Total £'000
Cost or Valuation									
as at 1 April 2015	**807,099**	**5,505**	**-**	**4,054**	**2,262**	**281**	**339**	**28,026**	**847,566**
Additions	42,680	284	125	1,036	-	-	3,439	74	47,638
Revaluations - Revaluation Reserve	(23,124)	213	-	-	72	-	-	-	(22,839)
Revaluations - CI&ES	(404)	(147)	-	-	(164)	(19)	-	(804)	(1,538)
Disposals	-	(1)	-	-	(754)	(6,812)	-	(3,419)	(10,986)
Assets reclassified (to) / from Held for Sale	(6,840)	-	-	-	(37)	6,877	-	-	-
Other Movements	694	71	-	-	92	-	689	400	1,946
as at 31 March 2016	**820,105**	**5,925**	**125**	**5,090**	**1,471**	**327**	**4,467**	**24,277**	**861,787**
Depreciation & Impairment									
as at 1 April 2015	**(30,413)**	**(471)**	**-**	**(3,955)**	**(689)**	**(232)**	**(17)**	**(2,406)**	**(38,183)**
In Year Depreciation	(12,339)	(122)	-	(81)	(13)	-	-	-	(12,555)
Depreciation Written Out - Revaluation Reserve	11,886	233	-	-	47	-	-	-	12,166
Impairment Losses / Reversals - CI&ES	-	-	-	-	(736)	-	-	-	(736)
Other Movements	91	(4)	-	-	12	(95)	(14)	-	(10)
as at 31 March 2016	**(30,775)**	**(364)**	**-**	**(4,036)**	**(1,379)**	**(327)**	**(31)**	**(2,406)**	**(39,318)**
Balance Sheet Amount									
as at 1 April 2015	**776,686**	**5,034**	**-**	**99**	**1,573**	**49**	**322**	**25,620**	**809,383**
as at 31 March 2016	**789,330**	**5,561**	**125**	**1,054**	**92**	**-**	**4,436**	**21,871**	**822,469**

The council entered into a 25 year PFI contract in March 2006 with Riverside Housing Association for the refurbishment of 1,095 dwellings. These assets are also included in the table above as they form part of the council's assets held within the Balance Sheet.

3. Vacant Possession and Existing Use Valuations

The opening vacant possession value of council dwellings as at 1 April 2015 after re-valuation was £2,256.168m, which represents the value that the council would receive if all dwellings were sold on the open market. The existing use value as at the same date was £767.097m and included a regional social housing discount factor of 34%. The difference shows the economic cost to Government of providing council housing at sub market rents.

The closing balance sheet value as at 31 March 2016 was £789.330m which also includes a regional social housing discount factor of 34%.

4. **Major Repairs Reserve**

The major repairs reserve is attributed with an amount equivalent to the full depreciation charges made during the year to the HRA. These funds are then available to finance capital expenditure on HRA assets with the balance of funds as at 31st March within the major repairs reserve being available for HRA capital purposes.

	2014/15 £'000	2015/16 £'000
Opening Balance as at 1st April	-	-
Depreciation on Dwellings to the MRR during year	11,499	11,852
Depreciation on other Non Current Assets	285	216
Amounts transferred to HRA	(285)	(216)
Capital expenditure on land, houses & other property within HRA	(11,499)	(11,852)
Closing Balance as at 31st March	-	-

5. **Capital Expenditure**

Capital expenditure on land, houses and other property within the HRA during 2015/16 is £47.638m. This expenditure has been financed as follows:

	2014/15 £'000	2015/16 £'000
Capital Expenditure	**48,597**	**47,638**
Sources of Funding:		
Prudential Borrowing	6,775	5,650
Grants	2,268	383
Major Repairs Reserve	11,499	11,852
Revenue Contribution	24,248	26,007
Usable Capital Receipts	3,807	3,746
Total Funding	**48,597**	**47,638**

6. **Capital Receipts**

Capital receipts received from the disposal of land, houses and other property within the HRA during 2015/16 is summarised below:

	2014/15 £'000	2015/16 £'000
Land & Buildings	284	2,168
Council Houses	11,412	9,767
Total Capital Receipts	**11,696**	**11,935**

7. **Depreciation Charge**

As required by the Code, the council has charged depreciation on all HRA properties, including non dwellings. In 2015/16 depreciation for council dwellings has been calculated on a straight line basis using different asset lives appropriate to each significant component. Depreciation for garages and neighbourhood offices have been calculated on a straight line basis, based on the assets useful lives.

A summary of depreciation charged into the Housing Revenue Account is detailed below:

	2014/15 £'000	2015/16 £'000
Dwellings	11,499	11,852
PFI Dwellings	493	487
Garages	93	90
Neighbourhood Offices	32	31
Equipment	146	81
Assets Not Held for Sale	14	13
Total Depreciation	**12,277**	**12,554**

8. **Revaluation and Impairment Losses**

The Code requires a charge to be made to the Housing Revenue Account in respect of revaluation and impairment. During 2015/16 there were net revaluation losses of £24.377m that had a negative affect on the value of assets held within the HRA as a result of an overall decrease in the asset values. There were total impairment losses of £0.736m which were charged directly to the HRA in 2015/16.

The Code also requires that previous years losses should be reversed if the circumstances giving rise to the loss change. Previous year losses of £0.010m were reversed during 2015/16 in relation to operational land and buildings.

9. **Rent Arrears**

Arrears of rent due from tenants of council dwellings are shown below:

	2014/15 £'000	2015/16 £'000
Current Tenants	3,013	2,993
Former Tenants	1,888	2,125
Total Arrears	**4,901**	**5,118**

10. **Provisions & Reserves**

A provision is made for bad debts on rents due from tenants of council dwellings, the movement on which is shown below:

	2014/15 £'000	2015/16 £'000
Provision b/fwd 1st April	**3,089**	**2,463**
Write Off / On Charged to Provision	(626)	(627)
Additional Provision	-	896
Provision c/fwd 31st March	**2,463**	**2,732**

In addition, earmarked reserves totalling £2.694m are held by the HRA for the specific purposes as detailed in the table below:

	Balance as at 31 March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In 2015/16 £'000	Balance as at 31 March 2016 £'000
Welfare Reform Reserve	**2,712**	(18)	-	**2,694**
Private Sector Housing Reserve	**133**	(209)	76	**-**
Mortgage Rescue Scheme Reserve	**61**	(61)	-	**-**
Total HRA	**2,906**	**(288)**	**76**	**2,694**

11. **Government Subsidy**

	2014/15 £'000	2015/16 £'000
PFI Credit Receivable	(5,713)	(5,713)
Total Government Subsidy Payable / (Receivable)	**(5,713)**	**(5,713)**

12. **Housing Revenue Account Balance**

	2014/15 £'000	2015/16 £'000
HRA Surplus as at 31st March	34,677	34,721
Less Earmarked Balances:		
- Working Balance	(7,100)	(7,100)
- Contingencies	(13,074)	(14,797)
- Capital Investment	(7,200)	(7,200)
- Carry Forward Commitments	(1,147)	(106)
Uncommitted HRA Resources	**6,156**	**5,518**

2014/15 Total £'000		2015/16 Council Tax £'000	2015/16 NDR £'000	2015/16 Total £'000
	Income			
91,592	- Council Tax Payers	94,047	-	94,047
100,062	- Business Rates Payers	-	103,014	103,014
2,296	Contribution towards previous year's estimated Collection Fund Deficit	-	870	870
193,950	**Total Income**	**94,047**	**103,884**	**197,931**
	Expenditure			
	Precepts:			
78,626	- Sandwell MBC	80,071	-	80,071
6,986	- West Midlands Police Crime Commissioner	7,256	-	7,256
3,602	- West Midlands Fire & Rescue Authority	3,741	-	3,741
	Non Domestic Rates:			
50,269	- Central Government	-	51,840	51,840
49,145	- Sandwell MBC	-	50,401	50,401
1,003	- West Midlands Fire & Rescue Authority	-	1,029	1,029
445	- Cost of Collection Allowances	-	452	452
	Provisions:			
3,764	- Bad Debts	2,510	2,213	4,723
(2,278)	- Appeals	-	428	428
620	Distribution of Estimated Collection Fund Surplus 2014/15	1,278	-	1,278
192,182	**Total Expenditure**	**94,856**	**106,363**	**201,219**
1,768	**Surplus / (Deficit) in year**	**(809)**	**(2,479)**	**(3,288)**

1. **General**

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to Council Tax and Non Domestic Rates (NDR) and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is consolidated with other accounts of the billing authority.

Collection Fund surpluses declared by the billing authority in relation to both Council Tax and NDR are apportioned to the relevant precepting bodies in the subsequent financial year; likewise deficits are proportionately charged to the relevant bodies in the following year.

In 2013/14 the local government finance regime was revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give councils a greater incentive to grow business within the borough, however it does also increase the financial risk to the council due to non collection and the volatility of the NDR tax base. The council will retain 49% of all NDR received, with the remainder being shared between West Midlands Fire & Rescue Authority (WMF&RA) (1%) and Central Government (50%).

2. **Income from Non Domestic Rates**

The council collects Non Domestic Rates (NDR) for its area based on local rateable values provided by the Valuation Office Agency (VOA) multiplied by a uniform business rate set nationally by Central Government.

The total amount collectable by the council in 2015/16 is calculated by applying the non domestic multiplier to the total rateable value as shown in the table below:

	2015/16 £
Total rateable value as at 31st March	255,806,700
Non domestic multiplier	0.480

The share of business rates payable were originally estimated as £51.429m to Central Government, £1.029m to WMF&RA and £50.401m to be retained by the council; these sums have been paid and charged to the Collection Fund in year.

The total income from business rate payers collected in 2015/16 was £103.014m. This includes transitional protection payments of £0.411m which, under the new regulations, should have a neutral impact on the business rate retention scheme. This sum has to be repaid to Central Government and therefore increases payments to them to £51.840m.

With the introduction of the new scheme, a baseline level was set by Central Government for each authority, which identified the expected level of retained business rates and a top up or tariff amount to ensure that authorities received their baseline amount. For 2015/16 it was estimated that the council would receive additional top up grant to the General Fund of £44.630m which is included within the Comprehensive Income and Expenditure Statement on page 13.

3. **Council Tax**

The council calculated a council tax base of 68,103 for 2015/16 as compared to the 2014/15 base of 66,874. The tax base for 2015/16 has been calculated as follows:

	Band D Equivalents Number
Band A	20,732
Band B	23,241
Band C	14,214
Band D	6,158
Band E	2,988
Band F	658
Band G	89
Band H	23
	68,103

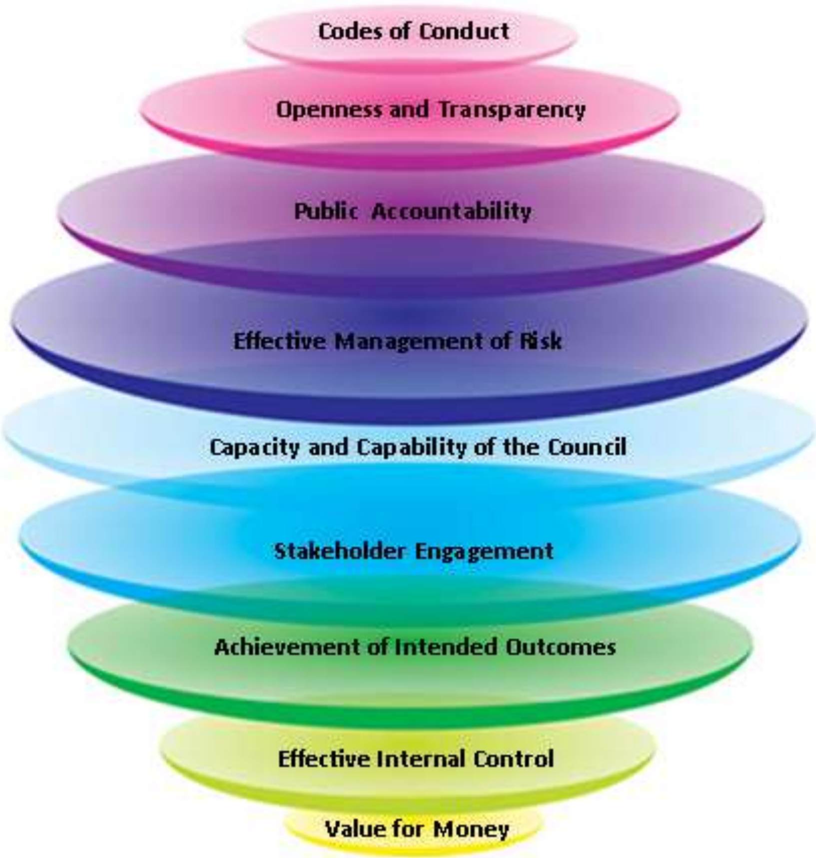
In 2015/16 the council set Band D Council Tax at £1,337.22. Council Tax Benefit is no longer received by the council; this has been replaced by local council tax reduction scheme which is administered by each authority.

4. **Collection Fund Provisions**

The Collection Fund provides for bad debts against arrears of both Council Tax and NDR. It also includes a provision for outstanding NDR rating appeals, which if successful will be a liability to the Collection Fund. The summary below includes full details of these provisions and also the council's share of this liability; the remaining liability being met proportionately by Central Government and preceptors.

2014/15					2015/16			
Bad Debts		Appeals			Bad Debts		Appeals	
Council Tax £'000	NDR £'000	Council Tax £'000	NDR £'000		Council Tax £'000	NDR £'000	Council Tax £'000	NDR £'000
13,382	1,422	1,900	2,100	Balance as at 1 April	14,304	1,549	-	1,722
(341)	(2,373)	-	-	Write Offs in Year	(529)	(2,260)	-	-
1,263	2,500	(1,900)	(378)	Increase / (Decrease) to Provision in Year	2,510	2,213	-	428
14,304	**1,549**	**-**	**1,722**	**Balance as at 31 March**	**16,285**	**1,502**	**-**	**2,150**
12,577	**759**	**-**	**844**	**SMBC's Proportion of Provisions:**	**14,322**	**736**	**-**	**1,054**

Annual Governance Statement 2015/16



Sandwell Metropolitan Borough Council

Scope of Responsibility

Sandwell Metropolitan Borough 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 best value 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 Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering *Good Governance in Local Government*. A copy of the code has been placed on the council's website at www.sandwell.gov.uk or can be obtained from the council offices, Sandwell Council House, Freeth Street, Oldbury, B69 3DE. This statement is prepared to comply with the requirements of regulation 4(3) of the Accounts and Audit Regulations 2015 in relation to the publication of an annual governance statement to accompany the statement of accounts.

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 council's corporate 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 ongoing 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 2016 and up to the date of approval of the annual report and statement of accounts.

The Governance Framework

The council has Great People, Great Place, Great Prospects and Great Performance as its key priorities, 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 (as detailed in the Code of Corporate Governance) and where assurance against these is required are described below.

Assurances Required	Governance Framework Providing Assurance	Assurances Received	Issues Identified
• Delivery and communication of an agreed vision and 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 officer and member conduct and behaviour • Public accountability • Published information is accurate and reliable • Implementation of previous governance issues	• Annual review of the Constitution (including Head of Paid Service, Chief Financial Officer and Monitoring Officer) • Sandwell scorecard and annual review • Corporate and business plans • Medium term financial plan • Corporate risk management strategy • Corporate risk register and assurance map • Scrutiny arrangement • Codes of conduct • Partnership framework • Standards committee • Audit committee • Internal audit plan • External audit plan • Independent external reviews • Business planning and performance management framework • Learning and development plans • Communication strategy • Confidential reporting code • Counter fraud and corruption strategy • Complaints system • Information governance framework • Management Board and directors' assurance statements • Procurement and contract procedure rules and Financial Regulations	• Annual scorecard report • Statement of accounts • External audit- Report to those charged with governance (ISA 260) report • Annual Internal Audit report • Audit committee annual report • Review of the effectiveness of internal audit • Annual report of the Standards Committee • Ofsted – Inspection of Children's Services and Review of the Effectiveness of the Local Safeguarding Children's Board June 2015 • Diagnostic review of Children's Services by Malcolm Newsam • Annual Local Government Ombudsman report • Senior Information Risk Officer's annual report • Annual fraud report • Director of Public Health annual report • Sandwell Safeguarding Children's Board annual report • Sandwell Safeguarding Adult's Board annual report • Scrutiny annual report • Investors In People- Bronze • Employee survey • SIMALTO • Planning committee annual report • Corporate Parenting Board annual report • Licensing committee annual report • Clinical Commissioning Group annual report	• Children's Services • Resilience of the Medium Term Financial Strategy • Business continuity planning • Sale and disposal of council land and property • Combined Authority • Sandwell Leisure Trust • Health and Social Care Reform

	• Committee management information systems	• Sandwell Leisure Trust annual performance report • Gowling WLG report- April 2016 • Queen's Counsel opinion- Project Osprey 9 May 2016	

In reviewing the council's priorities and its 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 include:

- Following the loss of the Leader of the Council, the Deputy Leader Councillor Eling took on the role of Acting Leader until 24 May 2016, when Council appointed Councillor Eling as Leader.
- The scrutiny model adopted for 2015/16 built on the structure used in previous years and recognises the need for robust scrutiny arrangements to be in place given the political make-up of the council, and the need for challenge and oversight of executive decision making.
- A senior management restructure in October 2015 creating a new focus on performance and delivery of the council's priorities.
- The refresh of the Officer and Member codes of conduct to add clarity and robustness to existing provisions.
- The refresh of the Sandwell Scorecard which sets out and provides evidence of how the council addresses local needs and priorities.
- The establishment of the governance arrangements for the Combined Authority across the West Midlands region.
- The introduction of the Jobs Promise and planned leavers register to prevent the need for redundancies and to assist in controlling the establishment list in a structured and supportive way.
- Introduction of Locality Working with partners including Health, Police and particularly the voluntary sector.
- In January 2016, the Secretary of State appointed Eleanor Brazil as Commissioner for Children's Services in Sandwell.
- Governance arrangements were put into place to enable the council to meet its responsibilities as part of the Prevent/Contest Strategy.

The Review of Effectiveness

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 Audit Committee, the Standards Committee, the Scrutiny function and also by reports made by the council's external auditors and other review agencies and inspectorates, as noted above, all of which are publicly available through the council's website and include:

- Internal Audit has reviewed itself against the governance arrangements set out in the CIPFA Statement on the Role of the Head of Internal Audit and the council is able to confirm that the arrangements conform to these requirements. The council is also able to confirm compliance with the Public Sector Internal Audit Standards.

  Internal Audit has concluded that based on the work undertaken during the year, on areas of key risk, the implementation by management of the recommendations made and the assurance made available to the council by other providers as well as directly by Internal Audit, it can provide reasonable assurance that the council has adequate and effective governance, risk management and internal control processes". Key areas of weakness have been included within the governance issues noted below.
- The council's external auditors KPMG LLP have audited the Statement of Accounts for 2015/16 and anticipate issuing an unqualified audit opinion of the financial statements. The external auditors will also provide a value for money conclusion on the council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

- The council is required to confirm whether its financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Statement sets out five principles which define the core activities and behaviours that belong to the role of the Chief Financial Officer and the organisational arrangements needed to support them. The council was fully compliant with the Statement.

  The Chief Financial Officer although a key member of the senior management team, reports directly to the Assistant Chief Executive and holds service manager status. The Chief Financial Officer attends the Management Board and the Facing the Future Board (the corporate management team), has access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the Assistant Chief Executive and the Chief Executive, and has direct and unfettered access to members, including Cabinet and the Audit Committee.

  The Chief Financial Officer has been involved in the preparation of this statement and is satisfied that no matters of significance have been omitted from this statement.

- The council has embedded effective standards for countering fraud and corruption through the adoption of and adherence to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The Code is based on five principles and having considered these, the council is satisfied that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud.

- In February 2015, Ofsted completed its inspection of services for children in need of help and protection, children looked after, care leavers and the effectiveness of the Sandwell Local Safeguarding Children's Board and reported its findings on 5 June 2015. The inspection provided an overall judgement that children's services are inadequate and reported serious failures that leave children being harmed or at risk of harm. In response to the Ofsted report, the Minister commissioned a diagnostic by Malcolm Newsam in October 2015 which resulted in a ministerial decision to appoint Eleanor Brazil as Sandwell's commissioner for Children's Services under an Order dated 7 January 2016. The commissioner's role is to review the direction and pace of improvement and provide rigour and challenge to progress and report back to the Minister.
- In November 2015, the council conducted an employee engagement survey to understand how employees felt about their jobs and working for the council. The survey achieved a 58% response rate (with the average for local government surveys 50%) and achieved an employee engagement index of 67%, which was an increase from 64% when the last survey was conducted in 2014, confirming a significant number of Sandwell council employees remain committed and motivated.
- A SIMALTO budget survey was undertaken to establish stakeholder priorities in service delivery, as well as measuring satisfaction with council services. The survey showed that 71% of respondents were satisfied or very satisfied with the level and quality of the service received from the council. This is an increase from 66% in 2012 using the same survey methodology and 57% in 2009. This is a significant outcome based on the level of budget cuts faced by the council.
- For 2015/16 a revised scrutiny model was approved which built on the structure used in 2013/14 and 2014/15. It was recognised there was a continued difficulty in maintaining the Health Scrutiny Board and Adult Social Care Scrutiny Board separately, given the overlap in these areas due to a continued national agenda to integrate health and social care. As such, it was agreed to establish the Health and Adult Social Care Scrutiny Board.

We have been advised by the sources noted above, on the result and implications of the review of effectiveness of the governance framework, that the arrangements continue to be regarded as fit for purpose in accordance with the council's governance framework. The key areas for improvement to be specifically addressed with action plans are outlined below. A number of issues were identified in the 2014/15 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas of weakness is included below. Where sufficient progress has not been made, the issues and outstanding actions have been included in the 2015/16 issues.

Progress of the Governance Issues from 2014/15

The table below describes the governance issues identified during 2014/15 (which were reported in the 2014/15 annual governance statement) and the progress that has been made against the implementation of actions to address these issues, during 2015/16.

Key Area for Improvement	Update on Position and Implication for the 2015/16 Annual Governance Statement
Children's Services On 22 July 2014, the Minister for Children and Families' issued the council with a further notice of Statutory Direction under section 497A of the Education Act 1996, for a further period of six months.	An Ofsted review which took place in March 2015 and reported its findings in June 2015, found the Council's children's services to be inadequate. The Ofsted report contained a number of recommendations of which five were of priority or immediate action. These have been reflected in the Sandwell Children's Services Improvement Plan 2015/16. In response to the Ofsted report, the Minister commissioned a diagnostic by Malcolm Newsam in October 2015 which resulted in a ministerial decision to appoint Eleanor Brazil as Sandwell's commissioner in January 2016. The commissioner's role is to review the direction and pace of improvement, to provide rigour and challenge to progress and to make a recommendation to the Secretary of State as to whether alternative delivery arrangements are the most effective way of securing and sustaining in children's services. **Carry forward**
Resilience of the Medium Term Financial Strategy (MTFS) There continue to be significant risks associated with the MTFS for 2016/17 and beyond which need to be managed.	The government announced figures showing the Core Spending Power for the council for the next four years. In order to achieve a balanced budget over the four year settlement funding period, the Facing the Future programme continues to identify transformational change projects to deliver the necessary savings from 2016/17 through to 2019/20 (£61m in total). Carry forward
Business Continuity Planning In 2012, the council agreed a revised framework for its business continuity arrangements to ensure that the council has the ability to maintain the delivery of critical services in the event of an emergency. The timetable for implementing and completing the revised framework was September 2014.	Delays were encountered in 2014 to complete the preparation of business continuity plans. Progress has been made in developing plans for service areas and action plans with milestones developed to complete plans and to establish a strategy for undertaking testing of the plans and for their maintenance and on-going review. **Carry forward**

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.	A council programme ‘Transforming Adult Social Care’ (TASC) has been established to oversee both the financial management and the change management aspects that are required to deal with the challenges. The TASC programme includes the projects relating to the implementation of the Better Care Fund and the Care Act, each of which are supported through individual project boards and project management arrangements. The council implemented the Better Care Fund and the first phase of the Care Act from 1 April 2015, but the Government took the decision to postpone phase 2 until at least 2020. There are six main principles of the Care Act and four key changes. A report to the scrutiny board outlined progress against these. Action has been taken to address the principles, with some issues still in progress. The four key changes: • The statutory requirement to have an Adult Safeguarding Board • National eligibility criteria to ensure that everyone across England is eligible for the same level of social care wherever they live • Formal recognition of the rights of carers and support for those eligible • A cap on care costs an individual will pay over their lifetime of £72,000 These changes have been implemented, with the exception of the cap on care costs. Following the general election in 2015, the new Government made the decision to ‘postpone’ the implementation to at least 2020. **Carry Forward**
Disposal of Council Property There is an on-going police investigation into a discrete number of areas within the council, predominantly around the sale of former council owned land and property.	Parallel to the police investigation was also another investigation conducted by Wragge & Co (now) Gowling WLG, on behalf of the council, which also looked at issues into a discrete number of areas within the council around land sales and other matters. Both the police and council investigations are now complete. The police investigation concluded that “The allegations have been thoroughly investigated and the council has supported our inquiries. However, at this stage there is insufficient evidence to bring charges”. Following this, Gowling WLG were able to conclude their investigation which was subsequently considered by an independent QC acting on behalf of the council. This report and QC’s advice identified a number of issues which the council needs to address. **Carry forward**

Combined Authority The council is in the process of establishing a Combined Authority with other authorities in the West Midlands and potentially other districts that make up the three Local Enterprise Partnerships that cover the area.	Following the completion of the governance review, consultation and the independent due diligence exercise, the council confirmed its commitment to formally becoming a constituent member of the West Midlands Combined Authority (WMCA), and consented to the draft Order, at the full Council meeting of 8 March 2016. The WMCA was formally and legally established in June 2016. As part of the arrangements for the WMCA, a joint proposal was put forward and accepted by the Shadow Board that was in place at the time, for the Chief Executives of Coventry City Council and Sandwell MBC to work together as the WMCA's Chief Executive and Chief Operating Officer respectively. These interim arrangements are planned to last for approximately fifteen months, until the proposed Mayoral election in May 2017. **Complete**
Register of Interests	These matters were dealt with by the Standards Committee and the Committee has developed and implemented a training programme to help members improve their understanding of the Member Code of conduct and registration of interests. Following the May election a programme for all members to have a face to face meeting with the Monitoring Officer and a senior officer was put in place to complete/update the individual member's register of interests. This is now complete, with further amendments made as and when further interests arise. **Complete**
Senior Management Restructure and Chief Financial Officer	Approval was given by Council on 19 October 2015 to a report which made some further changes to some of the Senior Management arrangements. The appointment of the new post of Director – Adult Services, Health and Wellbeing by the Chief Officers Terms and Conditions committee. In line with the new structural arrangements, the post-holder now has line management responsibility for the Director – Public Health and for the new post of Chief Operations Officer – Adult Social Care. The purpose of the appointment is to help the council to draw health and social care services closer together, both within the council and in our wider partnership with the NHS. Also, the Homes and Communities and Streetscene directorates were removed from the structure and their services re-aligned across the council. The Chief Financial Officer was appointed with effect from 1 August 2015. **Complete**
Handling of Subject Access Requests	Following several attempts, the council appointed to a post in the Children Services directorate to specifically deal with Subject Access Requests in November 2015. Regular meetings between the Governance Services Manager and the Senior Information Risk Officer (SIRO) take place to track the progress made and update the SIRO with the current position **Complete**

Significant Governance Issues and Action Plan for 2015/16

Based on the council's established risk management approach, the following issues have been assessed as being "significant" in relation to the council achieving its vision. 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 and operation will be monitored as part of the next annual review and risk management arrangements in place.

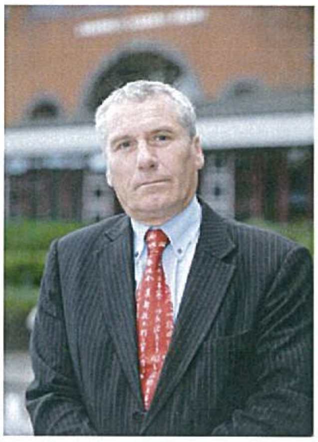
Key Improvement Area and Actions for Implementation	Responsibility and Implementation Date
Children's Services As noted above, the Ofsted inspection provided an overall judgement that children's services are inadequate and reported serious failures that leave children being harmed or at risk of harm. The report did acknowledge some achievements since the previous inspection, including progress for looked after children. The Secretary of State has appointed Eleanor Brazil as Commissioner for Children's Services in Sandwell In line with the recommendations set out in the Ofsted report of children's social care published on 5 June 2015, the Children's Services Commissioner has taken the following steps: • To direct and support the improvement of children's social care. • To review the Council's leadership and management capacity and capability to drive forward the changes necessary to achieve the required standard. • To make a recommendation to the Secretary of State as to whether alternative delivery arrangements are the most effective way of securing and sustaining improvement. The Commissioner has provided her report to the Secretary of State and the council is now in dialogue with the Department for Education about a range of options for the future delivery of Children's Social Care services.	Director of Children's Services March 2017

Resilience of the Medium Term Financial Strategy (MTFS) Since 2009, council spend has reduced by around £132m, but the SIMALTO survey has shown an increase in satisfaction with council services from 57% (2009) to 71% (2015). The council has adapted to the changing needs in service delivery to reflect its lower spending capacity. There is a strong plan in place to address continued budget reductions and there is confidence in the delivery of the first two years of the MTFS, with a plan in place for 2016/17and 2017/18, taking into account the impact of issues such as the national living wage, apprenticeship levy, better care fund, national funding formula and academy programme. The government announced figures showing the Core Spending Power for the council for the next four years. In order to achieve a balanced budget over the four year settlement funding period, there is a significant reliance upon the Facing the Future programme to identify transformational change projects which deliver the necessary savings from 2016/17 through to 2019/20 (£61m in total). In the coming months, Cabinet members and officers will be developing a vision for the council for 2020.	Assistant Chief Executive March 2017
Business Continuity Planning At the end of 2012, the council agreed a revised framework for its business continuity planning arrangements to ensure that the council has the ability to maintain the delivery of critical services in the event of an emergency. The original timetable for implementing and completing the revised framework was September 2014. Progress has been made in developing plans for service areas and action plans with milestones developed to complete plans and to establish a strategy for undertaking testing of the plans and for their maintenance and on-going review.	Area Director – Neighbourhoods March 2017
Land Sales and Other Matters As noted above, Gowling WLG's report and QC's advice identified a number of issues. These relate to the council's risk, governance, internal control environment and member and officer conduct. The risk, governance and internal control matters will be considered by the Audit Committee in order for the Committee to seek to gain assurance that the issues identified are being comprehensively and promptly addressed. The member and officer conduct matters will be dealt with separately, by the Standards Committee and the council's Human Resource department respectively.	Chief Executive March 2017
Combined Authority The West Midlands Combined Authority (WMCA) was formally and legally established in June 2016. As such, the council will need to obtain continual assurances that a suitable framework is in place for the WMCA to demonstrate robust decision making, accountability, transparency and the effective management of risk, thereby ensuring that no additional risks are placed upon the constituent authorities. The council will also need to ensure that arrangements are put in place locally to maximise the opportunities and benefits that can be derived from the expected economic growth arising from the WMCA.	Chief Executive March 2017

Sandwell Leisure Trust Sandwell Leisure Trust (SLT) is commissioned to operate leisure facilities in the borough. These services are managed through a Management and Funding Agreement with the Trust, incorporating a rolling three year business plan, approved on an annual basis. In June 2015, the council requested SLT to provide its draft business plan for the long term future delivery of leisure and sport for 2016/17 onwards. In October 2015, the Trust submitted its draft business plan, and after assessment by the council, the council was unable to reach an agreement with the Trust, particularly in respect of the ongoing significant management subsidy that was required by the Trust and the revenue available for the delivery of the agreement. As a result of the above, in March 2016, following Cabinet approval, the council notified the Trust that it was unable to agree the plan for 2016/17 onwards. The council is now continuing discussions with the Trust around the sustainable delivery of sport and leisure and the future delivery of the Agreement under the provisions of the Agreement.	Area Director – Neighbourhoods March 2017
Health and Social Care Reforms The Care Act introduced a cap on care costs an individual would pay over their lifetime of £72,000 and was planned to come into effect from April 2016 and would have effectively been in line with the recommendations from the 'Dilnot' review. The Dilnot review set out the challenges for the social care system posed by an ageing population, citing that 1 in 10 would pay more than £100,000 in care costs over their lifetime. As a result, one of the proposals the commission recommended was the implementation of a lifetime cap to guard against these high costs. The cap limits the open-ended risk that some people will face. The Government had set the cap at £72,000. There would be a lower cap for working age adults which had yet to be set out, whilst those turning 18 with existing social care needs would be entitled to free social care. In response to this proposed significant change, Sandwell Adult Social Care had started to look at the implications of both this change and its implementation. However, following the general Election earlier this year, the new Government made the decision to 'postpone' the implementation of these changes until 2016. All local authorities are currently awaiting further direction.	Director – Adult Services, Health and Wellbeing March 2017

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.



Councillor Steve Eling, Leader of the Council

Date: 18/08/2016.

Jan Britton, Chief Executive

Date: 18/08/2016

<u>Accruals</u> - Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

<u>Accumulated Compensated Absences</u> – Employee benefits, such as annual leave, which are earned on an accruals basis and which would result in a payment being made to the individual for any balance untaken.

<u>Balance Sheet</u> - A statement of the assets, liabilities and other balances at the end of an accounting period. The Balance Sheet combines all the accounts of an authority, excluding trust funds, as they are not at the disposal of the council.
<u>Call Accounts</u> – Investment accounts within which the council deposits surplus funds in order to generate interest where funds can be withdrawn with no advance notice.

<u>Capital Adjustment Account</u> - This account contains the resources set aside to meet the cost of past expenditure. These include capital receipts, released grants and contributions and sums set aside for debt redemption. It also contains any balances from revaluation of assets pre 1st April 2007.

<u>Capital Charge</u> - A charge to service revenue accounts to reflect the cost of non current assets used in the provision of services. This reflects only depreciation.

<u>Capital Commitment</u> - Future Capital expenditure that has been committed on long term assets over a period of time

<u>Capital Expenditure</u> - Expenditure on acquisition, improvement or enhancement of either the council's or third party assets are defined as capital expenditure. Expenditure, which merely maintains the value, e.g. repairs and maintenance is charged to revenue.

<u>Capital Receipts Unapplied</u> - Proceeds received from the sale of non current assets which have not yet been used to finance capital expenditure or repay debt. Capital receipts can only be used to fund capital expenditure.

<u>Cash Equivalents</u> – Funds invested in call accounts and 30 day notice accounts which are readily convertible to known amounts of cash with insignificant risk of change in value.

<u>Cash Flow Statement</u> - A summary of cash movement (actual or anticipated incomings and outgoings) in an accounting period (month, quarter, year).

<u>Cash Overdrawn</u> - This represents the cash overdrawn position at the balance sheet date including both capital and revenue.

<u>Code</u> - The rules and regulations governing the information and layout of the council's Statement of Accounts.

<u>Collection Fund</u> - 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 non-domestic rates collected on behalf of Central Government.

<u>Community Assets</u> - 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.

<u>Creditor</u> - An amount owed by the council for work done, goods received or services rendered but for which payment has not been made.

Current Assets - An asset where the value changes because the volume held varies from day to day e.g. inventories. It is reasonable to expect that these assets will either be consumed or realised during the next accounting period e.g. cash and bank balances, debtors.

Current Liabilities - An amount which will become payable or could be called in within the next accounting period e.g. creditor, cash overdrawn.

Debtor - A sum of money due to the council but not received at the balance sheet date.

Deferred Creditors - These are amounts owing by the council where payment is to be made in instalments over a predetermined period of time in excess of one year.

Deferred Debtors - These are amounts due to the council where payment is to be made by instalments over a predetermined period of time in excess of one year.

Deferred Government Grants & Contributions - Grants and contributions received towards the cost of capital expenditure. These are credited to revenue over the life of the asset created to match depreciation charged on the asset.

Depreciation - The measure of the consumption of a non current asset in delivery of a service charged to the revenue account.

DRC - Depreciated Replacement Cost. A method of valuation which provides the current cost of replacing an asset with its modern equivalent

Emoluments - These are payments received from employment, usually in the form of wages, salaries or fees.

Exceptional Items - These are 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.

Extraordinary Items - These are material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the council and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value - The fair value is the estimated value of all assets and liabilities - The price that would be received to sell an asset or paid to transfer a liability.

Finance Lease - A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

General Fund - The General Fund contains all the financial transactions of the council (with the exception of the Collection Fund and Housing Revenue Account).

Government Grants - These represent assistance by government and inter-government 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 – Those assets which are primarily held and maintained for knowledge and cultural purposes.

HNA – The Highways Network Asset

Housing Revenue Account - Housing authorities are required to keep a separate Housing Revenue Account which includes the expenditure and income arising in connection with the provision of housing accommodation by a local authority. The balance represents the accumulated surplus. The account is ring fenced, meaning it cannot either give or receive subsidy from the General Fund.

IAS – International Accounting Standards

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standards

Income Statement - An accounting of sales, expenses and net profit for a given period. An income statement shows the movement of Income and Expenditure over a given month, quarter or year.

Inventories - The value of raw materials and stores the council has procured to use on a continuing basis, but which have not been used at the balance sheet date.

Investment Properties - Applies to the accounting for property (land and/or buildings) held to earn rentals or for capital appreciation or both

Investments - The lending of surplus revenue balances to provide additional income, excluding funds invested in call accounts and 30 day notice accounts.

Impairment Loss - The amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount

Lessee – a person who holds the lease of a property; a tenant.

Lessor - a person who leases or lets a property to another; a landlord.

Levy – A mechanism to impose an obligation to pay tax.

Liability - An amount held by the council which is due to an individual or organisation which will be paid at some time in the future. Liabilities include both money borrowed but not yet repaid and payments due to creditors.

Liquidity – Cash, cash equivalents and other assets liquid assets) that can be easily converted into cash (liquidated).

Long Term Borrowing - The total amounts borrowed from external lenders for capital purposes but not repaid at the balance sheet date.

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

Minimum Revenue Provision - Sums set aside from revenue to repay borrowing used to finance past capital expenditure.

Net Book Value - The amount at which non current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

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 open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non Current Asset - A tangible asset with a benefit beyond one financial year, which has a realisable value e.g. land, buildings and plant.

Non Operational Assets – Non current assets held by the council but not directly occupied, used or consumed in the delivery of services. Examples of non operational assets would be investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Leases - Leases other than a finance lease.

Operational Assets – Non current assets held and occupied, used or consumed by the council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Payments in Advance - Amounts actually paid in a given accounting period prior to the period for which they were payable.

Pooled Budget - A type of partnership with another organisation in which the local authority contributes an agreed level of resource (into a single pot) to help commission/deliver specific services.

Precept – Tax levied by West Midlands Fire and Rescue Authority and the West Midlands Police and Crime Commissioner which is collected on their behalf by the council as the rating authority.

Provisions - Amounts set aside in the accounts for any liabilities of uncertain timing or amount that have been incurred, the movements in year being charged or credited to the appropriate service heads in the Service Revenue Accounts. In order for a sum to be recognised as a provision, certain criteria must be met, as specified in IAS 37.

PWLB - Public Work Loan Board

QC – Queen’s Counsel, a senior barrister.

Receipts in Advance - Amounts actually received in a given accounting period prior to the period for which they were receivable.

Reserves - Amounts earmarked in the accounts for purposes falling outside the definition of provisions can be classified as reserves. The movements in year being charged or generated as an appropriation to the Movement In Reserves Statement rather than directly to Service Revenue Accounts.

Revaluation Reserve - This account contains all the unrealised gains from the revaluation of non current assets since it was established on 1 April 2007. All unrealised gains prior to this date are held in the Capital Adjustment Account.

Revenue Accounts Balance - The Revenue Account records an authorities day-to-day expenditure and income on such items as salaries and wages, running costs of services and the financing costs of non current assets. The balance represents the accumulated General Fund Surplus including working balances.

Revenue Expenditure Funded From Capital Under Statute (REFCUS) - Capital expenditure on a third party asset, which does not add value for the council. These are usually written off in the year they are incurred. Examples of this expenditure are improvement grants and disabled facilities grants.

Temporary Loans - This represents money borrowed for an initial period of less than one year.

Useful Life - The period over which the council will derive benefits from the use of a non current asset.

VA Schools / VC School - Voluntary Aided Schools / Voluntary Controlled School

Work in Progress - The cost of work done on an uncompleted project at the year-end, which has not been recharged to the appropriate account at the balance sheet date.